

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Madison Heights, Michigan</u>	County Oakland
Audit Date June 30, 2004	Opinion Date September 10, 2004	Date Accountant Report Submitted To State: December 3, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Madison Heights, Michigan

Comprehensive Annual Financial Report

June 30, 2004

City of Madison Heights, Michigan

Contents

Introductory Section

Letter of Transmittal	i-xxiii
GFOA Certificate of Achievement	xxiv
Organizational Chart	xxv
List of Principal Officials	xxvi

Financial Section

Report Letter	1-2
Management's Discussion and Analysis	3-8

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Assets	9
Statement of Activities	10-11

Fund Financial Statements:

Governmental Funds:

Balance Sheet	12-13
Reconciliation of Fund Balances to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15-16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17

Proprietary Fund - Enterprise - Water and Sewer Fund:

Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20

Fiduciary Funds:

Statement of Net Assets	21
Statement of Changes in Net Assets	22

Component Units:

Statement of Net Assets	23
Statement of Activities	24-25

Notes to Financial Statements	26-54
-------------------------------	-------

City of Madison Heights, Michigan

Contents (Continued)

Required Supplemental Information

Budgetary Comparison Schedules:	
General Fund	55
Major Streets Fund	56
Local Streets Fund	57
Revolving Fund	58
 Pension System Schedule of Funding Progress	 59
Pension System Schedule of Employer's Contributions	60
 Note to Required Supplemental Information	 61-62

Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	64
 Combining Balance Sheet - Agency Funds	 65
 Budgetary Comparison Schedules:	
Nonmajor Special Revenue Funds:	
Curtail Auto Theft Fund	66
Community Improvement Fund	66
Forfeiture Fund	67
Capital Projects - Fire Station Fund	68
Debt Service - Fire Station Fund	69
 Police and Fire Retirement System - Schedule of Changes in Reserves	 70

Statistical Section

General Government Expenditure History	71
General Government Revenues History	72
General Government Selected Intergovernmental Revenues by Source	73
Tax Levy History	74
Property Tax Levies and Collections	75
Property Tax Rates - Direct and Overlapping Governments	76
General Tax Information	77

City of Madison Heights, Michigan

Contents (Continued)

Statistical Section (Continued)

Taxable Valuation History	78
Principal Taxpayers	79
Special Assessments Billings and Collections	80
Net Bonded Debt History	81
Computation of Legal Debt Margin	82
Computation of Direct and Overlapping Debt	83
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Government Expenditures	84
Demographic Statistics	85
Real Property Value, Construction, and Bank Deposits	86-87
Miscellaneous Statistical Data	88

September 29, 2004

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Introduction

We are submitting herewith the Comprehensive Annual Financial Report of the City of Madison Heights for the fiscal year ended June 30, 2004. It is the responsibility of the City's management to present fairly, with full disclosure and in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City's funds and account groups, as well as those of the City's discretely presented component units. The Comprehensive Annual Financial Report contains necessary disclosures useful in providing an understanding of the combined statements and the individual fund and account group statements.

The June 30, 2004 Comprehensive Annual Financial Report of the City of Madison Heights encompasses five sections: introductory, financial, required supplemental information, other supplemental information, and statistical.

The introductory section contains information on the City's current and future projects, departmental services and accomplishments, and an overview of the City's financial position.

The financial section contains the independent auditor's report, management's discussion and analysis, basic financial statements, and the notes to the financial statements. These basic financial statements include both government-wide and fund-based financial statements for the governmental funds. In addition, the proprietary funds, fiduciary funds, and component units are presented.

The required supplemental information section includes budgetary comparison schedules of most of the major governmental funds as well as pension system funding schedules and related notes.

The other supplemental information section includes budgetary comparison schedules for certain other governmental funds, nonmajor fund combining statements, and the Police and Fire Retirement System changes in reserves schedules.

The statistical section contains 10-year histories of revenues, expenditures, tax levies, assessed valuation, etc.

According to the Single Audit Act Amendments of 1996 and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the City is required to undergo an annual federal single audit. Information related to the single audit, including the schedule of expenditures of federal awards, is issued under separate cover, as are auditor's reports covering the internal control structure and compliance with applicable laws and regulations.

The Comprehensive Annual Financial Report includes the City of Madison Heights, Michigan and any component units included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The component units included in the City's reporting entity include the Housing Commission, Economic Development Corporation, and the Downtown Development Authority, which are included as discretely presented component units, as well as the Municipal Building Authority, which is consolidated into the City's financial statements.

The Madison Heights Housing Commission receives Section 8 funds from the United States Department of Housing and Urban Development to provide rental assistance for families with low incomes. Tenants pay approximately 30 percent of their income toward the gross contract rent and the Housing Commission issues Housing Assistance Payments to the landlords for the remaining portion. Eligibility criteria are established by the Department of Housing and Urban Development and each tenant must meet the eligibility guidelines.

The Economic Development Corporation issues revenue bonds to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district and promote economic growth within the downtown district.

The Municipal Building Authority was created for the sole purpose of issuing and repaying debt for the construction and improvement of facilities within the City. The Building Authority was inactive during fiscal year 2003-2004.

Economic Conditions

Regional Setting

The City of Madison Heights is located near the southeast corner of Oakland County, adjacent to the western boundary of Macomb County and approximately two miles north of the City of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-75 (I-75) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system.

Incorporated in 1955, Madison Heights has grown and prospered significantly over the past 49 years. According to the 2002 Land Use Survey, only 2 percent of the City's total acreage is vacant land. Most of the new development growth occurring in Oakland County has now shifted to the north and west where vacant land is available.

Oakland County continues to experience the tremendous growth that began in the late 1980s. By 1990, Oakland County led the state in employment growth, and after some recent setback continues to lead the state in private sector employment growth. The proximity to the I-696 and I-75 freeways provide easy access to employment centers and residential communities throughout Oakland County and has made Madison Heights a strategic location for both employers and employees.

Oakland County Economic Forecast

Nationally known economists from the University of Michigan Institute of Labor and Industrial Relations recently presented the results of the 2004-2005 Economic Outlook for Oakland County at the 19th Annual Outlook Luncheon.

The past few years have been challenging for Oakland County, as they have been for all of southeast Michigan and throughout most of the country. The economic downturn hit hard in Oakland; estimates indicate that the county lost over 12,000 jobs in 2003 after losing almost 30,000 jobs during the previous two years. Last fall, the national job count finally began to improve, which leads to three burning questions.

The first question is: "Has the Oakland County economy turned the corner and is it returning to a regime of sustained job growth?" The answers are yes and yes: the economists' view is that the county economy began gaining jobs at the end of last year, and will continue to add jobs from there on. They are forecasting that the county will gain 15,600 jobs from the end of 2003 to the end of 2004, another 16,400 jobs by the end of 2005, and an additional 13,800 workers through the end of 2006. The job growth projected through 2006 results in the county's recovering virtually all of its job losses during the downturn of the past three years. From there, the local economy will be establishing new highs for employment. With renewed job growth, the unemployment rate will decline a full percentage point, from 5.2 percent in 2003 to 4.2 percent in 2006 - about half a percentage point below the rates forecast for the nation. Although local consumer inflation picks up with the strengthening local economy, it remains under 3 percent for the duration of the forecast period.

The second question is: “If the county economy returns to sustained job growth, where will the growth come from?” Over the three-year period from 2003 to 2006, more than nine out of ten additional private sector jobs will be in the service-providing sector. Conventional wisdom views this sector generally as being made up of low-wage jobs. To the contrary, within the sector there are wide variations in earnings. For Oakland County, the major industry categories that pay the lowest wages on average, leisure and hospitality services and retail trade, account for only 18 percent of the anticipated job growth over the next three years. On the other hand, about 40 percent of Oakland County’s job growth is forecast to occur in several industries that pay at least as well as the manufacturing sector outside of the motor vehicle industry: wholesale trade; financial activities, professional, scientific, and technical services (including technology-based industries); and corporate headquarters. Higher-paying positions in these industries, however, tend to require much higher levels of education than does the manufacturing sector.

Economic forecasting is always subject to a myriad of risks. In this forecast, one overriding risk stands out that could affect the local economy differently. That uncertainty is the possibility that consumer sentiment, which has strengthened considerably since early summer last year, could weaken again. Possible triggers would be more subdued job creation than expected on the domestic scene, or developing concerns on the international scene, such as the situation in Iraq. Although the readings are strong at present, consumer sentiment appears to be fragile and particularly sensitive right now to perceptions about job creation.

There are upside potentials to the forecast as well, that is, uncertainties that could lead to an economic outlook somewhat stronger than forecasted. The most significant of these upside modifiers relates to monetary policy assumptions. Unlike the economists’ research group, financial market analysts, in general, are not expecting the Federal Reserve to raise interest rates until after the U.S. presidential election in November and they also seem to be anticipating smaller interest rate hikes than forecasted over the next 12 to 18 months. To the extent that there is less upward movement in interest rates than forecasted, the near-term outlook could be somewhat stronger for the nation and for the interest-sensitive Oakland County economy.

Regardless of the degree of the forecast accuracy and the reasons for any deviations from the numbers eventually reported, one of the fundamental conclusions derived from the forecast holds firm: the key to Oakland County’s future prosperity will be to continue attracting and retaining high-wage jobs in the services sector. This conclusion sets up the third question: “What will it take to continue growing this traditionally high-powered economy?”

Much of the right strategy has to do with exploiting existing advantages and continuing to do what the county is already doing right. Southeast Michigan has become the world center for automotive engineering, research, and design, a well-paid service activity in which the region has a large comparative advantage over other locations. If continuing to attract these and related enterprises to a region that is well situated to accommodate them is a key strategy, as it should be, then promoting programs such as Automation Alley is precisely the right thing to do. The county also continues to attract headquarters and other managerial activity, and this also appears to be a good fit for the region.

A related policy strategy is to step up investment in education, training, and technology, making these high-end activities more productive. If Oakland County has a larger pool of skilled and educated workers, then the county becomes more attractive for those enterprises that require such a work force. From the point of view of the workers, they in turn have more secure employment and are not trapped in the new economy with skills that are becoming increasingly outdated.

Transportation networks and infrastructure need to continue to be upgraded in concert to move goods and people more quickly and effectively to where they are needed. Efficient transportation networks and modern infrastructure are becoming increasingly important in a faster-paced economic environment.

Finally, many of the comparative advantages of the region are not sealed off by county boundaries. The economic health of Oakland County is related in many ways to the health of the surrounding areas and the ability of the region in general to attract and retain new business and residents. Cooperation among the communities in southeast Michigan in attracting new business and capturing spin-off effects from a more vital regional economy is more important now than ever. Once again, Automation Alley is taking the lead by now expanding beyond Oakland County's borders to take in partners from the other counties in southeast Michigan. For Oakland County, it is simply an extension of the right business practices. And business is something that Oakland County does well.

Local Economic Base

Madison Heights is a full-service modern community. It is fiscally sound, stable, and has many advantages accruing to it because of its favorable tax base, housing mix, and business climate. City officials proudly point to the fact that almost 90 percent of the buildings are single-family homes or condominiums, while over 57 percent of the City's tax base (real and personal property) is high-yield light industrial and commercial facilities.

The diversity of the City's economic base is reflected in its building stock:

Single-family homes*	9,691	Homes
Condominiums - 9 complexes*	331	Units
Sr. Citizen Towers - 5 buildings	709	Units
Rental apartments - 24 complexes	2,448	Units
Mobile home parks - 3 locations	501	Sites
Shopping centers (1.3 million sq. ft.)	27	Centers
Hotel/Motels - 11 buildings	1,063	Rooms
Offices (860,626 sq. ft.)	97	Buildings
Commercial (gas stations/retail/restaurants, etc.)	529	Buildings
Light industrial (10.4 million sq. ft.)	491	Buildings
	<hr/>	
Total units/buildings	<u>15,887</u>	

* Single-family homes range in value from \$55,000 to in excess of \$313,000; condominiums range from \$84,000 to \$175,000.

Tax Base Composition

The principal source of revenues to fund the City's operations is the property tax (68 percent of total 2003-2004 General Fund revenues). The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's current tax base, including the DDA district, which will be the basis for property tax revenue for the fiscal year 2004-2005 budget.

By Class	Taxable Value	Percent
Real property	\$ 947,866,890	85.0
Personal property	166,469,160	15.0
Total	<u><u>\$ 1,114,336,050</u></u>	<u><u>100.0</u></u>
By Use		
Residential	\$ 477,364,980	42.8
Commercial	239,581,380	21.5
Industrial	230,920,530	20.7
Personal property	166,469,160	15.0
Total	<u><u>\$ 1,114,336,050</u></u>	<u><u>100.0</u></u>

Total taxable value for all property within Madison Heights has grown 43.3 percent over the last 10 years through June 30, 2004 or approximately 4 percent per year on average. Historically, the fastest rate of value growth of over 10 percent per year occurred in the late 1980s. From 1992 to 1993, the City experienced its only decline (0.5 percent) in values. For the latest 12-month period, City taxable values have shown an average rate of growth of approximately 4.3 percent overall. Real property taxable values increased by approximately 4.5 percent, while personal property taxable values decreased by approximately 1 percent.

Major Business

Another way to judge the strength of a city's local economy is to measure its reliance on a type of business or a single business. While some cities rely heavily on a major automotive manufacturing plant, Madison Heights' business base is made up of a large number of smaller businesses. Having smaller employers reduces the impact of any one business deciding to relocate or going out of business.

The tables below show the City's major taxpayers as of December 31, 2003, the valuation date related to the property tax revenue of the City for the year ending June 30, 2005.

		Total Taxable Value (\$ Millions)
Taxpayer	Type of Business	
Gordon Begin Co.	Apartments	\$ 18.6
Liberty Property LTD Partnership	Industrial landlord	17.6
S&M Heights/Madison Place	Shopping center landlord	14.3
Detroit Edison Company	Electrical utility	12.7
Madison Place, LLC	Shopping center landlord	12.0
Meijer, Inc.	Retail sales	10.1
BT-OH, LLC (United Parcel Service)	Parcel delivery	8.9
Saturn, I2-75 LTD	Auto engineering and design	8.1
First Industrial LP	Industrial landlord	8.1
Sam's Real Estate	Warehouse retail	8.0
Co-operative Services	Senior high-rise apartment	7.8
Great Lakes Property Group Trust	Apartments	7.8
Ramco-Gershenson/Kmart	Shopping center landlord	7.5
Target Corporation/Mervyn's	Retail sales	7.2
Ogura Corporation	Automotive supplier	6.4
Commercial Steel Treating	Steel treating	6.3
Costco	Warehouse retail	5.8
Kemp & Sherman	Industrial landlord	5.8
Home Depot USA, Inc.	Warehouse retail	5.1
Howard Plating	Electroplating	4.7
Total		<u><u>\$ 182.8</u></u>

The top 20 taxpayers made up 16.4 percent of the total taxable valuation citywide. The highest taxpayer (Gordon Begin Co.) amounts to only 1.7 percent of the total value.

Local Employment

Madison Heights has a strong, trained workforce. Several vocational schools in the area encourage young people to seek training in industrial-related careers. Also, within a seven-mile radius, there are some of Michigan's finest colleges and business schools.

The City's major employers include the following:

Name	Type of Business	Employees
D-M-E Company	Special dies, tools, jigs, and fixtures	874
St. John Oakland Hospital	Medical care and surgical hospital	779
United Parcel Services	Trucking and courier services	606
Super Kmart	Discount retailer	603
Henkel Surface Technologies	Chemical preparation	600
MSX International	Auto engineering	550
Cincinnati Milacron (GTE Valenite)	Machine tools, metal cutting type	500
EDS/Saturn Corporation	Auto design and engineering	450
Trigon Holding, Inc.	Highway and street construction	425
Triangle Electric	Electric work	403
Meijer	Retail store	380
Lamphere Schools	Public School District	380
Grayrose, Inc.	Help supply services	352
Madison Schools	Public School District	340
ADT Security Systems	Security systems services	327
Telecom Technicians	Electrical work	305
Alpha Bolt	Bolts, nuts, rivets, and washers	300
Target Store	Department store	300
Weldmation, Inc.	Welding apparatus	300
Infusystem	Medical equipment rental	290
PLS Industries, Inc.	Plating and polishing	285
Valley Automotive	Motor vehicle parts and accessories	260
Henry Ford Hospital	Medical care and surgical hospital	255
Code Alarm, Inc.	Electrical equipment and supplies	250
McNaughton - McKay Electric Co.	Electronic apparatus and equipment	235
Dayton-Hudson (Mervyn's)	Department stores	232

Economic Development Initiatives

Historically, the City has made use of economic development revenue bond financing, tax abatements, infrastructure improvements, tax increment financing, and site assemblage as local economic development initiatives.

The City's industrial building vacancy rate stands at about 14.9 percent and our commercial/office vacancy rate is 7.05 percent as of July 2004. Relative to other communities in metropolitan Detroit, the vacancy rate is very good, but our City is working to make it even better.

During fiscal year 2003-2004, the Economic Development Division completed its first full year of addressing the needs of the business community. This division, new as of January 2003, fulfilled a City Council goal to establish a comprehensive economic development program for the City. The Economic Development Coordinator serves within the Community Development Department, and this position supports the Downtown Development Authority, Brownfield Redevelopment Authority, Planning Commission, and City Council regarding economic development projects. The Economic Development Coordinator is responsible for the development and improvement of the business and industrial districts in the City. This position provides support to businesses, business owners, and commercial and industrial property owners throughout the City. The main priorities of this division include business retention and expansion throughout the City, improving the economic base of the community, creating employment opportunities, and reducing commercial and industrial property vacancies. In addition, the Economic Development Division works closely with the Chamber of Commerce, Oakland County, Michigan Economic Development Corporation (MEDC), other State departments and organizations, adjoining communities, local real estate agencies, development firms, and community organizations to develop and strengthen cooperative relationships, business retention and attraction efforts, ombudsman services, and development opportunities throughout the City of Madison Heights.

Major selling points for the available industrial buildings in Madison Heights include the opportunities in size (225 to 130,000 square feet), low City and County taxation, and close proximity to major airports and freeway entrances.

To assist in the promotion of this business sector, five major industrial park areas have been established including:

- **Stephenson Industrial Research Corridor**, Stephenson Highway from 12 to 14 Mile Roads
- **Madison Industrial Research District** in the Dequindre and 14 Mile area, extending south to Whitcomb and west to John R
- **Public Service Center Industrial District** on Girard and Ajax Drive, off John R between 12 and 13 Mile Roads
- **Ten Mile and John R Industrial District** running along 10 Mile from Dequindre to John R, and along John R from 10 Mile to Lincoln
- **Interchange 696 Industrial District**, bounded by Dequindre, Commerce Drive, Interstate-696 service drive, and Lincoln

The following is a profile of these industrial parks:

	Average Building Size (Square Feet)	Industrial Space Square Feet (Millions)	2004 Taxable Value (\$ Millions)
	Bldgs.	Feet)	(Millions)
Stephenson Industrial Research Corridor	92	30,202	2.7 \$ 56.7
Madison Industrial Research District	212	23,317	4.9 112.8
Public Service Center Industrial District	34	11,403	0.4 7.9
Ten Mile and John R Industrial District	76	4,793	0.4 7.2
Interchange 696 Industrial District	53	26,022	1.3 30.3
I-75/Twelve Mile District	2	109,483	0.2 4.8
Other industrial	39	11,688	0.5 10.3
Totals and averages	508	20,472	10.4 \$ 230.0

In an effort to promote economic development in our area, Oakland County has launched an effort called "Automation Alley." The term "Automation Alley" has been used informally in Oakland County for some time.

"Automation" became a catchword to identify the high-tech companies gravitating to Oakland County. Since they all were located close to one of two linked interstate freeways, I-75 and I-696, the term "Alley" was used to describe this high-speed, high-tech corridor. Automation Alley reflects both the technological orientation and geographic location of about 1,800 businesses in Oakland County, Michigan, and Madison Heights is at the intersection of the I-75 and I-696 corridors.

Automation Alley is made up of the world's most dynamic and advanced technology-focused companies. Industries range from telecommunications, computer software/hardware, and information systems to consumer products, industrial processes, automotive research and development, diversified manufacturing, and health care.

Oakland County has become an internationally recognized economic powerhouse. The Automation Alley Consortium was established to develop programs to support members in their efforts to attract world-class, high-technology workers.

Automation Alley's 1,800 progressive businesses do not restrict recruitment efforts to the local area. They compete directly on a national level with other national powerhouses such as California's Silicon Valley and Boston's Route 128 for the world's best employment prospects. By implementing a dynamic marketing strategy through Automation Alley, Oakland County has enhanced its ability to compete in the global marketplace.

Major Initiatives

In light of the growing financial pressures resulting from the reduction in state-shared revenues, limits on property tax revenues, and employee medical and pension expenditure trends, the City focused its effort on maintaining quality service and minimizing the impacts of service reductions on our residents and businesses. Despite these serious constraints, there were significant achievements in 2004 with more planned for next year.

The City's major accomplishments over the last year can be divided into three areas: (1) public safety, (2) services, and (3) parks, libraries, and events.

Public Safety

In 2004, the police department continued to train for the requirements of post 9-11 policing. Emergency management and in-service training was conducted to assist personnel in responding to disasters, weapons of mass destruction, terrorism, and other critical incidents. Officers were trained and equipped with taser guns as a less lethal option in use of force situations. In-car field-based incident reporting was implemented to allow officers to write reports in the field and transmit them electronically.

For 2005, the department will continue to progress toward new technologies such as the new 800 Megahertz radio system, new records management system, and a county-wide video arraignment system. These systems will enhance the department's ability to coordinate operations, share data, and reduce workload.

During 2004, the construction of the fire department's new headquarters was completed. The new headquarters includes a training tower that incorporates design features that allow for confined space, rope rescue, live fire, and fire pumper operator training. The renovations at Fire Station Two were also completed, giving the department two of the best fire stations in the state, thanks to the support of the 2002 Fire Stations Bond proposal. Also, as mandated in the bond program, the old station was demolished and the Thirteen Mile Road frontage was redeveloped to restore the site, replacing park property lost to the new station and to enhance the appearance and functionality of this plaza.

During 2005, the department will be replacing some older equipment in order to keep our emergency medical services running at the high service level that the citizens deserve and have come to expect. A 1995 rescue truck will be replaced with a new model, and a new automatic external defibrillator will be purchased for a second fire engine.

As in the past, the fire department will continue to emphasize training. Fire department officers will attend advanced leadership training at the National Fire Academy or local community colleges. The department's Hazardous Materials Team, Technical Rescue Team, and Tactical Medic Team will continue to pursue training in their specialty areas.

Services

Road maintenance continues to be a high priority item. 2004 saw the completion of a number of Proposal R Residential Road Projects and related watermain, Greig from John R to Dequindre, Tawas from Lincoln to Guthrie, Dartmouth from Lincoln to Dallas, Woodside from I-75 to Barrington, and Barrington north of Woodside to Gravel Park. The Water Division initiated expedited commercial meter reading through the installation of 160 radio read devices with an additional 100 planned in 2005.

In February 2003, the City completed a major overhaul and redesign of its Website, www.madison-heights.org. The new site has received over 235,000 hits to date and, with two gigabytes of data online, offers a wealth of information and interactive services to our residents and businesses.

Parks, Libraries, and Events

The Water and Sewer and Parks Divisions continued to wage a campaign against the West Nile virus. Standing water City-wide was larvicided four times in 2004 included May, June, July, and August, and extensive mosquito trapping and testing continued.

The Parks Division also continued to wage the battle against the emerald ash borer with a total of 243 ash trees being removed from City parks and right-of-ways to date. An additional 25 trees were injected around the parks and City buildings on an experimental treatment basis. The City applied for and received two grants to help with the removal and replacement of trees.

In 2004, the City library made a relatively seamless transition to iBistro, the new shared Internet catalog. The catalog is available through any Internet connection anywhere, 24 hours a day, seven days a week, and offers a wealth of features for library users.

In 2005, the City will be celebrating its 50th anniversary with some unique events including a 1955 Sock Hop in January, a special Pre-Fourth of July event in June, and a combined car show and festival in August.

Future Projects

The City has set as a goal that a high level of basic services will be maintained with sufficient staff and appropriate equipment and facilities for fire suppression, emergency medical services, police, and public services programs. The budget contains the following key program enhancements, which will be provided within our current financial resources:

General Fund

Public health-related program improvements including:

\$ 12,500 West Nile virus mosquito prevention program

\$ 11,000 Emerald ash borer tree treatment program

Public safety-related program improvements including:

\$ 30,000 Fire alarm system upgrades at City Hall, Police Station, Fire Station #2, District Court, and Main Library

\$ 30,000 Mobile emergency generator power transfer for telephone systems, lighting, and temporary on-site needs

\$ 2,700 Emergency fire rescue automatic external defibrillator

Parks and Leisure Service program improvements including:

\$ 26,000 To purchase two Youth Center mobile recreation trailers, currently rented for \$7,800 per year

\$ 30,300 Library purchases including books, videos, and audio/visuals

\$ 4,000 Restoration for the Rosie's Park site, currently occupied by a house to be sold and moved in the coming year

\$ 203,000 **Proposal "V" Millage vehicle replacements including:**

One patrol vehicle and related lightbar

One police investigative vehicle

One ambulance rescue truck

\$ 75,000 **Technological advancements including:**

Move to less expensive network financial/personnel computer system with projected savings of \$42,000 annually to the General Fund

\$ 12,000 **Building and facility related improvements including:**

Replace failing plumbing in police station lockup cells

Major Streets Fund

\$ 130,000	Phase II funding for program to install right-hand turn lanes, reduce commercial driveways, and install or extend acceleration/deceleration lanes along major rights-of-way; planned projects include: eastbound Twelve Mile at John R and northbound John R at Senior Center (Total project \$280,000)
\$ 45,000	Phase II funding for Fourteen Mile I-75 underpass south side sidewalk (Total project \$195,000, City contribution \$55,000)
\$ 110,000	Stephenson Highway turnarounds reconstruction Phase V
\$ 80,000	Thirteen Mile Road - John R to Dequindre developer funded sectional concrete replacement

Local Streets Fund

\$ 3,860,000	Proposal “R” Millage road reconstruction scheduled as part of Year Nine of Neighborhood Road Improvement Program including: Greig from John R to Dequindre Dartmouth from Lincoln to Dallas Tawas from Lincoln to Guthrie Woodside from I-75 to east of Barrington Barrington from Woodside to Gravel Park
\$ 95,000	Crack and joint sealing program for neighborhoods south of Twelve Mile, west of John R, north of Gardenia and east of the Parker District
\$ 72,000	Bellaire from Dartmouth to Diesing Subdivision (Local Street \$53,000 and CDBG \$19,000)
\$ 50,000	Grind high sections on Winthrop from Sheffield to Hales

Downtown Development Authority Fund

\$	32,000	Downtown Development Authority (DDA) funding match of 40 percent for new Economic Development Program
\$	11,000	DDA identification project based on review of alternatives including banners, signs, and/or other
\$	66,200	Last installation payment to Special Assessment Revolving Fund for Eleven Mile Road and John R clock tower improvement
\$	18,000	Public right-of-way mowing

Community Improvement Fund

\$	35,000	Senior citizen home chore program lawn mowing and snow shoveling
----	--------	--

Water and Sewer Fund

\$	265,000	Watermain replacements as part of Year Nine and Ten of Ten-year Neighborhood Road Improvement Program on Woodside between I-75 and Barrington, Barrington between Gravel Park and Woodside, Dorchester from Donna to Browning, and Delton from Greig to Cowan
\$	15,000	Commercial water meter replacements

Departmental Services and Accomplishments

Under the present City Charter adopted in 1955, Madison Heights is governed by the Council Manager form of government. Madison Heights provides a full range of services to its residents through its District Court, city clerk, city assessor, human resources, finance, custodial and maintenance, police, fire, streets, solid waste, senior citizens, recreation, nature center, parks, library, community development, community improvement, general administration, information technology, water and sewer, and motor pool departments, divisions, and offices.

District Court

The 43rd District Court, Madison Heights Division, was established by the State of Michigan to render judicial decisions for the citizens of the City. The State is divided into judicial districts, each of which is an administrative unit subject to the control of the Supreme Court of the State of Michigan.

Jurisdiction of the District Court includes all felonies, misdemeanors, civil infractions, and civil and small claim cases. The District Court employees are supervised by the District Court Judge, who is an employee of the State of Michigan and elected by local voters.

City Clerk's Office

The City Clerk's Office is responsible for the official records of the City. The department's employees are represented at all City Council, Zoning Board of Appeals, Civil Service Commission, Brownfield Redevelopment Authority, Downtown Development Authority, City-School Liaison Committee, Charter Amendment Committee, and Elective Officials Compensation Committee meetings. Staff word-processes the agendas for the meetings and prepare notices and publications. Meeting actions are recorded in the form of minutes, indices, adjustment of directories, and updates to the Code of Ordinances. Ceremonial certificates, commendations, and testimonials are also prepared by staff.

This department is also responsible for issuance of animal licenses and the coordination of temporary, seasonal, and regular retail business licenses, right-of-way, and door-to-door solicitation permits. Madison Heights residents' vital statistics, such as birth and death certificates, are kept on file for use by individuals and the State of Michigan. The City Clerk's Department also maintains a medical loan closet to provide use of wheelchairs, crutches, canes, and walkers for residents.

The City Clerk administers the Election Division. This division is responsible for voter registration and providing lists of registered voters upon request. Other duties include conducting federal, state, county, and city and school elections in accordance with the federal and State election laws, while striving to protect the rights of the voters.

City Assessor's Office

The City Assessor's Office is responsible for the appraisal of all real estate and personal property for property tax purposes. There are approximately 11,600 real property descriptions and 1,900 personal property accounts contained in the City's mass appraisal files. The Assessing Department operates under the provisions of the General Property Tax Act of 1893, as amended, and also applicable local Charter Provisions. In addition, the department maintains and monitors the "homestead" status of all property throughout the City as well as tracking property transfers.

The department is responsible for development of Special Assessment District rolls used to fund infrastructure improvements. The Assessing Department also defends all assessments before the Michigan Tax Tribunal and participates in economic development activities.

Human Resources Department

The Human Resources Department is responsible for the following functions: coordination of employee recruitment and selection, training, counseling, medical evaluation, discipline, transfer, grievance administration, staffing analysis and planning, labor relations, labor contract negotiations, health and safety, return-to-work program, compensation administration, position control, pay and classification review, wellness, and other matters. In addition, the department researches and formulates policy as directed by the City Manager or initiated by the department.

Finance Department

The Finance Department prepares and maintains the City's financial statements in compliance with the requirements of the Governmental Accounting Standards Board. The Finance Department is responsible for all accounting, pension administration, risk management, and treasury functions. The Finance Department also assists in budget development, implementation, maintenance, and control. Additionally, the Finance Department provides support services to other departments, including being part of the management team in labor negotiations with all employee bargaining units. The Finance Department continues to move toward complete online data processing of financial reporting, accounting, accounts payable, budgeting, cash receipts, payroll, pension management, purchasing and encumbrance, and tax and utility billing and collection.

Department of Public Services - Custodial and Building Maintenance

The Custodial and Building Maintenance Division is responsible for maintaining City buildings, which include preventative maintenance, repairs, and janitorial services. Custodial services are provided through outside contractors at the library, District Court, police station, senior citizen center, nature center, City Hall, and the Department of Public Services buildings.

Police Department

The police department strives to preserve and protect life and property in Madison Heights, through its five operating bureaus. The majority of the department's staffing, equipment, and financial resources are allocated to the Road Patrol Bureau. The Bureau's role is to establish a communication network through community policing, suppress crime, maintain order, and respond to emergencies and calls for assistance.

The Investigative Bureau includes trained professional investigators who are responsible for researching, solving, and successful prosecution of crimes.

The Crime Prevention Bureau works with businesses and homeowners to increase their awareness of the importance of security.

The Accident Investigation Team's officers, through training in traffic and motor carrier enforcement, work to reduce traffic accidents by determining causes and making recommendations for changes in traffic regulations and enforcing overweight and safe vehicle statutes to protect the City's roadways.

The police department also maintains an educational program in many of these areas through contacts with various citizens' groups and speaking engagements.

Finally, the Auxiliary Services Unit is responsible for helping citizens who wish to become more involved in and aware of methods of crime prevention in their community. Auxiliary Services consists primarily of volunteers supervised by a police sergeant. Volunteer groups include Police Reserves, Crisis Response Team, Citizens Observation and Surveillance Team, and the Police Explorers, who are young people who receive training for law enforcement careers.

Fire Department

The fire department is responsible for the protection of life and property from the ravages of fire. The fire department responds to residential, commercial, and industrial fires with specialized equipment designed to meet the needs of the particular fire. In addition, the department is able to respond to hazardous materials incidents, confined space rescue, and trench rescue.

The fire department provides advance life support emergency medical services in cases of sudden illness or injury. Licensed paramedics, working under the direction of a base hospital physician, provide quality pre-hospital emergency care with transportation to six area hospitals.

The Fire Prevention Division is involved in the enforcement of State laws and City ordinances that relate to fire protection and prevention. In addition, the department inspects commercial and industrial buildings, and multiple-unit dwellings for fire code violations. The division also conducts fire investigations and aids in the fire prevention effort through the development and presentation of public fire education programs.

Department of Public Services - Streets Division

The Department of Public Services Streets Division is responsible for maintaining the 106 miles of streets within the City. The Streets Division is responsible for handling all street cleaning, snow and ice removal, tree trimming, street signs, and open drain repair. The Streets Division is upgrading street signs with a high density facing for a safer, more visible sign. The Streets Division will be performing both targeted and generalized concrete repair as part of the Ten-year Neighborhood Road Improvement Program that was initiated in 1997.

Department of Public Services - Solid Waste Division

The Solid Waste Division is responsible for the collection of refuse and recyclables, brush chipping, street sweeping, leaf pickup, litter disposal, park cleanup, and catch basin cleanout. The quarterly City newsletter and Website informs citizens of refuse and recycling rules and schedules. The City has established a mandatory recycling program. Recycled materials include metals, telephone books, magazines, paper, plastics, glass, tin, Christmas trees, batteries, grass clippings, and leaves. Educational seminars for recycling and composting are conducted for schools and businesses. At considerable savings, the City has contracted out its refuse collection (January 1997) and refuse disposal (July 1997) operations.

Department of Public Services - Senior Citizen Division

The Senior Citizen Division is responsible for hosting a wide range of programs for the City's senior citizens. The Senior Center provides a place for seniors to enjoy their leisure time participating in educational and recreational programs. Transportation is provided through the center for recreation, personal business appointments, and other activities. A daily lunch program, a home chore program (grass mowing and snow shoveling for financially needy seniors), and human services information and referral are also available.

Department of Public Services - Recreation Division

The Recreation Division is responsible for conducting the City's leisure and recreational programs. The Recreation Division provides instructional programs in such areas as dance, tennis, swimming, and art. The "Festivals in the Park" series continues with great success. Team sports such as basketball, softball, and volleyball are also offered. The Recreation Division staff processes all registration, preparation, and distribution of flyers, evaluation and selection of programs and instructional personnel, and coordination of volunteer coaches.

Department of Public Services - Nature Center

The Nature Center at Suarez Woods opened in October 1996 and operates with one full-time and one part-time naturalist and many volunteers. The Center is open six days a week (approximately 40 hours) and offers a variety of seasonal displays, programs, walking tours, and a small gift store. The Nature Center's goal is to provide visitors a better appreciation of nature. In doing so, interactive displays are changed seasonally. Live animals, taxidermy mounts, artwork, and special events are all a part of the experience. In addition to the building, the 36 acres of natural preservation located in the middle of a developed community leave the patron wanting more.

Department of Public Services - Parks Division

The Parks Division is responsible for the maintenance of all City parks. In addition, the Parks Division performs landscaping duties, as well as sidewalk and parking lot maintenance for all City buildings. The Parks Division is also responsible for mowing, responding to tree service calls, removal of unsafe or dead trees, and oversight of the mowing contractor. All athletic field sites are prepared for use and maintained by the Parks Division.

Library Department

The Library Department is a multifaceted service agency involved in meeting the community's needs for information in a variety of formats. Demand for educational, recreational, and cultural materials is met with a constantly updated collection of books, periodicals, pamphlets, videos, compact discs, and books on tape.

The Library Department's ability to provide information is further enhanced by its membership in The Library Network (TLN). This membership allows for the electronic inter-loan of items from other TLN members. These items are then delivered to Madison Heights for patron pickup.

A myriad of additional services is offered by the Library, such as free home delivery of library materials to the physically challenged, temporarily homebound, and senior citizens. In an effort to better serve the City's significant and varied immigrant population, the Library offers English as a Second Language (ESL) collection consisting of books, audio cassettes, and videos designed to teach English. Personal computers, with Internet access, are available for use by patrons. Liaison is maintained with the City's schools and classroom visits are arranged. Art exhibits are scheduled regularly and speakers, films, book reviews, and children's programming are offered year round.

Community Development Department

The Community Development Department consists of seven separate functions: Economic Development, Geographic Information Systems (GIS), Code Enforcement, Building, Planning and Zoning, Engineering, and Housing and Grant Administration; all personnel deal with developing and enhancing the quality of life in Madison Heights.

The Building Division performs inspections of new buildings, inspections of commercial buildings for business licenses, and inspections for landlord licenses. The Planning and Zoning Division provides recommendations on all matters coming before the Planning Commission, Zoning Board of Appeals, and the Downtown Development Authority. Staff also reviews proposed development to ensure compliance with the City's Zoning Ordinances and Master Plan. The Engineering Division administers, designs, and inspects City utility and road projects. It also provides engineering inspection for all private development. The GIS Division provides comprehensive mapping services to all City departments and the general public. Code Enforcement conducts inspections to determine compliance with various City codes.

The newly created Economic Development Division provides business retention and attraction resources, as well as direct support to the Downtown Development Authority and the Brownfield Redevelopment Authority.

Community Development Department - Community Improvement Division

The Community Improvement Division is a federally funded division of the Community Development Department. The Community Improvement Division is charged with the administration of the City's Community Development Block Grant and Housing Commission Funds. Block grant funds are used for such things as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, neighborhood road improvements, and other similar projects that benefit low- and moderate-income residents. In addition, these funds provide assistance to low-income families in securing low interest and/or deferred home improvement loans. The City's Housing Commission funds are used to subsidize the rent for 278 low-income tenants.

General Administration Department

The General Administration Department is responsible for conducting many of the City's centralized administrative functions. Examples of key roles include: purchasing; telephone administration; Internet Website support; City calendar and annual report; coordinating citizens' requests for services; cable television production and regulation; and special projects as assigned.

Information Technology Office

The Information Technology Office is responsible for supporting the City's Wide Area Network (WAN) and computer-related functions. Examples of key services provided include installation and support of microcomputers, technical support liaison for all hardware and software, water and tax bill production, and assistance in setting the technological direction for the City.

Department of Public Services - Water and Sewer Division

The Water and Sewer Division is responsible for providing water distribution and sewage collection to the City's citizens and businesses. The process begins with the purchase of water from the Detroit Water and Sewerage Department. The Water and Sewer Division handles the installation, repair, and reading of all water meters. The Water and Sewer Division does all repair work on water and sewer mains, gatewells, maintenance hole and catch basin structures; all cleaning of sewer mains, catch basins, gatewells and culverts; and all other related services. The Water and Sewer Division handles all repair work, including pavement and landscape repairs arising from water main breaks and/or sewer trench settlement. The process ends with the City paying the Oakland County Drain Commission for the treatment of sewage that enters its facilities.

Department of Public Services - Motor Pool Division

The Motor Pool Division is responsible for maintaining all City vehicles and related equipment. The Motor Pool Division keeps individual records on each vehicle and piece of equipment to help determine whether the cost of repair is justified as the need arises. The equipment is also inspected for safety problems, thereby protecting the employees and the general public. The Motor Pool Division is also responsible for keeping adequate vehicle and equipment parts in stock and updated. The Motor Pool Division also orders gasoline and diesel fuel, and oversees the work done on all emergency backup generators.

Financial Information

Internal Control

The accounting principles and procedures currently in use by the City have been designed to enhance and coordinate internal accounting controls as well as to encourage adherence to prescribed managerial policies. The manner in which these controls are implemented reflects procedures designed to help ensure the safeguarding of assets and the reliability of accounting data to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that errors will be detected and prevented, if and when they occur. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

Budgeting Controls

The annual budget provides a basis of control over financial operations. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the approved budget. Activities of the General Fund, Special Revenue Funds, and the Debt Service Fund are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity within each individual fund. These controls have assisted in the sound financial planning of the past by improving budgetary standards such as long-range programs for cyclical road, vehicle, and equipment replacement. The overall budget strategy is to address the current program obligations as efficiently as possible while also meeting the challenges of future needs for infrastructure improvements.

Management's Discussion and Analysis

Beginning on page three of the financial section of the City's Comprehensive Annual Financial Report is the Management's Discussion and Analysis section (MD & A). The MD & A provides an overview of the City of Madison Heights' financial activities for the year ended June 30, 2004 as well as management's commentary on significant financial events or circumstances.

Other Information

Independent Audit

The State statutes and City Charter require an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been fulfilled and the report of Plante & Moran, PLLC, certified public accountants, is included herein. The auditor's report on the general purpose financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are reported under separate cover.

Certification

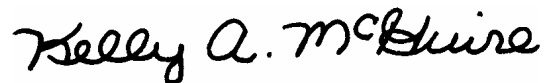
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Madison Heights for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

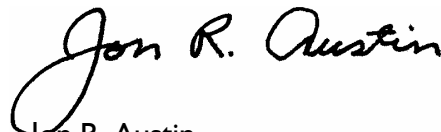
A Certificate of Achievement is valid for a period of one year only. The City of Madison Heights has received a Certificate of Achievement annually since the fiscal year ended June 30, 1992. City management believes our current report continues to conform to the Certificate of Achievement Program requirements and is submitting it to GFOA to determine its eligibility for a certificate.

Acknowledgments

The timely preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department and the City Manager's Office. We express our appreciation to all members of the departments who assisted and contributed to its preparation. We also thank the City Council for its interest and support in conducting the financial operations of the City in a responsible and progressive manner.

A handwritten signature in black ink that reads "Kelly A. McGuire". The script is fluid and cursive.

Kelly A. McGuire
Finance Director/Treasurer

A handwritten signature in black ink that reads "Jon R. Austin". The script is fluid and cursive.

Jon R. Austin
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Madison Heights,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

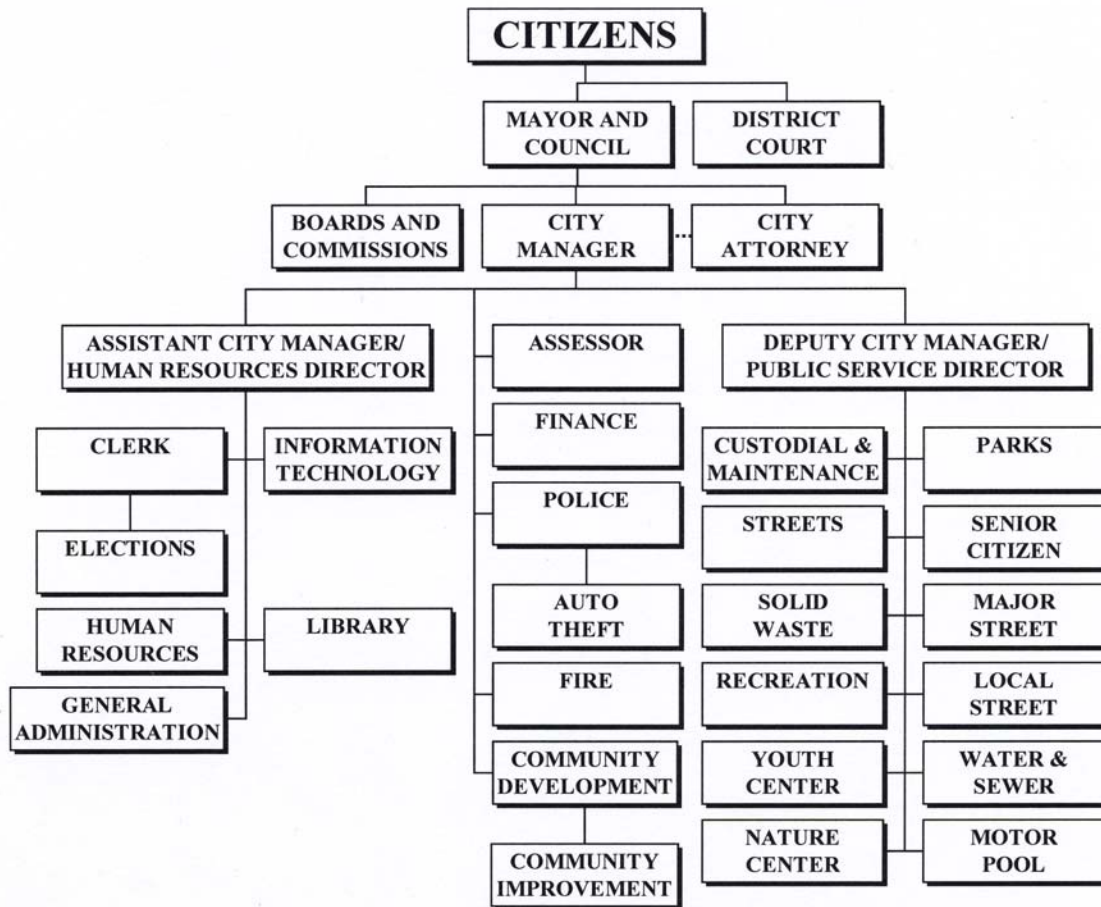
President

Jeffrey R. Enen

Executive Director

CITY OF MADISON HEIGHTS

ORGANIZATIONAL CHART



City of Madison Heights, Michigan

List of Principal Officials June 30, 2004

Title	Name
Mayor	Edward C. Swanson
Mayor Pro Tem	Richard L. Clark
Council Member	Robert J. Corbett
Council Member	Gary R. McGillivray
Council Member	Marilyn R. Russell
Council Member	Margene A. Scott
Council Member	Toni F. Shad
City Manager	Jon R. Austin
Deputy City Manager	Peter J. Connors
Assistant City Manager	Benjamin I. Myers
Departmental Administrators:	
City Assessor	Dwayne G. McLachlan
City Clerk	Geraldine A. Flack
Community Development	James T. Schafer
Finance Director/Treasurer	Kelly A. McGuire
Fire	Richard E. Donahue
Library	Roslyn F. Yerman
Police	Kevin M. Sagan

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Madison Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the major fund budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Heights' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 on our consideration of the City of Madison Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 10, 2004

City of Madison Heights, Michigan

Management's Discussion and Analysis

This discussion and analysis of the City of Madison Heights' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, the General Fund's second largest revenue source, was reduced by the State of Michigan by approximately \$270,000 compared to the prior year. To help offset this reduction, the City maintained prior year's spending levels for supplies and contractual services as well as eliminating or postponing capital purchases. Insurance recoveries were significantly less than anticipated due to the timing of the payments associated with losses incurred as a result of the April 2003 Department of Public Service building fire. These revenues were earned, but not secured in the current fiscal year. Additionally, interest income was lower than expected. These factors contributed to the General Fund's fund balance decrease of \$1,404,368 during the year.
- Total net assets related to the City's governmental activities increased by approximately \$1,000,000. This increase is a result of growth in the real taxable property values and expenditure control. The unrestricted portion of net assets decreased by approximately \$2,600,000.
- The City completed the construction of the fire station headquarters. This project includes the cost of acquiring, constructing, furnishing, and equipping a new fire station and related training tower. Firefighter parking, site improvements, construction of an underground storm water detention structure, draft pit, demolition of the old fire station, redevelopment of the Thirteen Mile Road park frontage, and rehabilitation of Station #2 are also included in the project. The entire project is expected to be completed in fiscal year 2004-2005. To fund the project, the City issued \$5,925,000 general obligation bonds in May 2003.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Madison Heights on a government-wide basis. They are designed to present a longer-term view of the City's finances. The fund-based financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, the fund-based financial statements report the City's operations in more detail than the government-wide financial statements.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The City of Madison Heights as a Whole

The City's combined net assets increased 3.7 percent from a year ago, increasing from \$62.3 million to \$64.6 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$1 million in net assets, or 2.2 percent, during fiscal year 2003-2004. This increase was the result of diligence in the area of expenditure control, disciplined budgeting practices, and continued growth in property values within the City. In addition, the City received certain insurance proceeds; however, these funds were used to replace destroyed assets.

Net assets of business-type activities (Water and Sewer Fund) increased approximately \$1.3 million in net assets as well. This was primarily due to capital contributions related to the George W. Kuhn Drain Project.

In a condensed format, the following table shows the comparison of net assets (in thousands of dollars) as of June 30, 2004 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2003-2004	2002-2003	2003-2004	2002-2003	2003-2004	2002-2003
Assets						
Current assets	\$ 15,767	\$ 16,618	\$ 5,123	\$ 6,494	\$ 20,890	\$ 23,112
Noncurrent assets:						
Capital assets	41,300	35,356	21,953	16,699	63,253	52,055
Other	2,998	6,441	3,819	2,697	6,817	9,138
Total assets	60,065	58,415	30,895	25,890	90,960	84,305
Liabilities						
Current liabilities	3,469	3,617	1,507	1,160	4,976	4,777
Long-term liabilities	9,579	8,781	11,821	8,478	21,400	17,259
Total liabilities	13,048	12,398	13,328	9,638	26,376	22,036
Net Assets						
Invested in capital assets - Net of related debt	36,389	34,567	13,254	9,784	49,643	44,351
Restricted	6,719	4,975	3,619	3,419	10,338	8,394
Unrestricted	3,909	6,475	694	3,049	4,603	9,524
Total net assets	<u>\$ 47,017</u>	<u>\$ 46,017</u>	<u>\$ 17,567</u>	<u>\$ 16,252</u>	<u>\$ 64,584</u>	<u>\$ 62,269</u>

Unrestricted net assets for governmental activities was \$3.9 million at June 30, 2004. These net assets are available to finance day-to-day operations as well as future growth. This represents a decrease of approximately \$2,666,000, or 39.6 percent.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2004 and June 30, 2003:

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2003-2004	2002-2003	2003-2004	2002-2003	2003-2004	2002-2003
Revenue						
Program revenue:						
Charges for services	\$ 3,076	\$ 2,749	\$ 7,929	\$ 8,111	\$ 11,005	\$ 10,860
Operating grants	2,206	2,379	-	-	2,206	2,379
Capital grants and contributions	1,547	237	958	142	2,505	379
General revenues:						
Property taxes	18,665	17,338	-	-	18,665	17,338
State-shared revenues	3,467	3,694	-	-	3,467	3,694
Unrestricted investment earnings	232	284	39	52	271	336
Franchise fees	308	254	-	-	308	254
Other	269	406	13	167	282	573
Total revenue	29,770	27,341	8,939	8,472	38,709	35,813
Program Expenses						
General government	6,046	5,012	-	-	6,046	5,012
Public safety	14,246	12,843	-	-	14,246	12,843
Public works	3,206	3,155	-	-	3,206	3,155
Solid waste	1,832	1,816	-	-	1,832	1,816
Community development	1,157	1,134	-	-	1,157	1,134
Recreation	2,351	2,172	-	-	2,351	2,172
Water and sewer	-	-	8,341	7,998	8,341	7,998
Total program expenses	28,838	26,132	8,341	7,998	37,179	34,130
Increase in Net Assets - Before transfers and extraordinary item	932	1,209	598	474	1,530	1,683
Extraordinary Item - Gain on insurance recovery	68	1,303	716	1,400	784	2,703
Transfers	-	(124)	-	124	-	-
Increase in Net Assets	\$ 1,000	\$ 2,388	\$ 1,314	\$ 1,998	\$ 2,314	\$ 4,386

Governmental Activities

The City's governmental activities revenue increased by approximately \$2.4 million. This was attributed primarily to property tax revenue increases and an increase in capital grants.

Expenses increased by approximately \$2.7 million. This increase was largely the result of the cost of salary, overtime, retirement contribution, and retiree health benefits increases, particularly in Public Safety. In addition, interest expense on a new bond issue was incurred in the current year.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

During the year, the City continued meeting the actuarial required contributions for the defined benefit pension systems. This is important for the City because future taxpayers should not be required to fund pension benefit payments that were earned in the present. Recently, the City Council has directed staff to move forward with plans to pre-fund retiree health care benefits.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to all of its residents and businesses. There were no rate increases for fiscal 2003-2004 despite a 4.5 percent increase by the City of Detroit. The City provides sewage treatment to all residents and businesses using the Southeast Oakland County Sewage Disposal System. There were no rate increases for sewage treatment despite a 7.7 percent rate increase charged by the Oakland County Drain Commissioner. During fiscal year 2003-2004, the water and sewer systems experienced a minimal change in the volume of water sold and sewage treated and a .25 percent increase in the number of users.

Major Funds

The analysis of the City's major funds begins in the financial section following the government-wide financial statements. The fund-based financial statements provide detailed information for the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Public Act 51 Major and Local Streets Revenue and the voted debt retirement property tax millages. The City's major funds for 2003-2004 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Revolving Fund, and the Capital Projects Fire Station Fund.

The General Fund pays for the majority of the City's governmental services, the most significant being police and fire, which incurred expenditures of approximately \$13.3 million in fiscal year 2003-2004. The general operating millage levied by the City supports these two services. The Major and Local Streets Funds as well as the Capital Projects Fire Station Fund are the three funds used by the City to account primarily for capital outlay and infrastructure expenditures. The Revolving Fund is used to account for special assessments and the related projects. Transfers from other funds, debt issuance proceeds, and Act 51 State disbursements to local governments support these funds.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur throughout the year. The most significant events during fiscal 2003-2004 were the decreases in the amounts of anticipated State-shared revenue and interest income. These revenues decreased due to the downturn in the economy and the State's decision to shift priorities to other programs, and cutting promised payments to local governments. To combat these revenue losses, the City took action with the mid-year budget amendment to reduce appropriations and related expenditures.

During the current year, the City incurred General Fund expenditures that were in excess of the amount budgeted as follows:

	<u>Final Budget</u>	<u>Actual</u>
General Fund - Public safety	\$ 13,281,174	\$ 13,335,196

The variance in the General Fund - Public Safety budget was due to greater than anticipated overtime and pension costs.

Capital Assets and Debt Administration

As of June 30, 2004, the City had \$63.3 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure, and water and sewer lines.

Debt reported in these financial statements relates to the construction and acquisition of the above-mentioned assets and is reported as a liability on the statement of net assets.

Economic Factors and Next Year's Budgets and Rates

The City's overall budgeted expenditures for fiscal year 2004-2005 decreased by \$8.9 million compared to the fiscal year 2003-2004 budget. The decreases are primarily the result of personnel reductions and the near completion of construction on the new fire station headquarters in the Capital Projects Fund.

Despite increases in other funds, reductions in State revenue sharing and interest income have resulted in the City's General Fund budget for fiscal year 2004-2005 being reduced by approximately \$2.2 million as compared to the fiscal year 2003-2004 budget, with future reductions likely. In addition to these revenue losses, the City has had to contend with annual medical benefit increases of 15 percent to 20 percent and significant increases in pension fund contributions as a result of declining investment returns. These financial restraints have forced the City to reduce its overall capital outlay spending.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

The Detroit Water and Sewage Department increased the City's cost for water purchases and sewer disposal charges by over 6 percent. The City increased its rates by 9 percent to cover rate increases from the Detroit Water and Sewage Department and debt payments related to the George W. Kuhn Drain Project.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the finance department.

City of Madison Heights, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and investments (Note 2)	\$ 13,852,025	\$ 2,983,380	\$ 16,835,405	\$ 106,375
Special assessments receivable - Current	120,000	-	120,000	-
Accounts receivable (Note 3)	730,844	2,104,325	2,835,169	-
Due from other governmental units (Note 3)	789,710	-	789,710	66,940
Prepaid expenses and deposits	274,064	-	274,064	-
Noncurrent assets:				
Special assessments receivable - Deferred	1,507,095	-	1,507,095	-
Inventories	-	35,845	35,845	-
Restricted assets (Note 7)	1,490,607	3,818,584	5,309,191	-
Capital assets (Note 4)	41,300,419	21,953,146	63,253,565	114,044
Total assets	60,064,764	30,895,280	90,960,044	287,359
Liabilities				
Accounts payable	843,612	662,923	1,506,535	3,599
Accrued and other liabilities	926,690	252,267	1,178,957	5,595
Due to other governmental units	40,871	-	40,871	-
Due to police and fire retirement system	1,478,779	-	1,478,779	-
Deferred revenue	13,884	-	13,884	6,349
Deposits	-	101,871	101,871	68,003
Noncurrent liabilities (Note 6):				
Current liabilities payable from restricted assets (Note 7)	496,759	199,875	696,634	-
Compensated absences and other claims	3,476,987	-	3,476,987	-
Long-term debt:				
Due within one year	165,000	489,837	654,837	-
Due in more than one year	5,605,000	11,621,372	17,226,372	-
Total liabilities	13,047,582	13,328,145	26,375,727	83,546
Net Assets				
Invested in capital assets - Net of related debt	36,388,554	13,254,046	49,642,600	114,044
Restricted:				
Major and Local Streets Funds - Construction and operations	6,543,070	-	6,543,070	-
Forfeiture Fund	61,849	-	61,849	-
Debt administration	114,896	-	114,896	-
Water and Sewer Fund:				
Construction	-	3,412,109	3,412,109	-
Building replacement (Note 14)	-	206,600	206,600	-
Unrestricted	3,908,813	694,380	4,603,193	89,769
Total net assets	\$ 47,017,182	\$ 17,567,135	\$ 64,584,317	\$ 203,813

City of Madison Heights, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government - Governmental activities:				
General government	\$ 6,046,355	\$ 1,606,056	\$ -	\$ -
Public safety	14,245,603	432,565	78,976	69,178
Public works	3,205,821	22,095	1,939,066	1,477,362
Solid waste and recycling	1,832,362	16,239	-	-
Community and economic development	1,156,546	668,116	112,865	-
Recreation and culture	2,351,090	330,812	75,087	-
Total governmental activities	28,837,777	3,075,883	2,205,994	1,546,540
Business-type activities - Water and sewer	8,341,090	7,928,883	-	958,480
Total primary government	<u>\$ 37,178,867</u>	<u>\$ 11,004,766</u>	<u>\$ 2,205,994</u>	<u>\$ 2,505,020</u>
Component units:				
Housing Commission	\$ 1,761,273	\$ -	\$ 1,748,244	\$ -
Downtown Development Authority	74,761	-	-	-
Total component units	<u>\$ 1,836,034</u>	<u>\$ -</u>	<u>\$ 1,748,244</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Extraordinary item - Gain on insurance recovery (Note 14)				
Total general revenues and extraordinary item				

Change in Net Assets

Net Assets - July 1, 2003

Net Assets - June 30, 2004

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (4,440,299)	\$ -	\$ (4,440,299)	\$ -
(13,664,884)	-	(13,664,884)	-
232,702	-	232,702	-
(1,816,123)	-	(1,816,123)	-
(375,565)	-	(375,565)	-
(1,945,191)	-	(1,945,191)	-
(22,009,360)	-	(22,009,360)	-
-	546,273	546,273	-
(22,009,360)	546,273	(21,463,087)	-
-	-	-	(13,029)
-	-	-	(74,761)
-	-	-	(87,790)
18,664,545	-	18,664,545	126,387
3,466,749	-	3,466,749	-
231,842	38,927	270,769	1,012
308,208	-	308,208	-
269,220	13,295	282,515	14,330
68,679	716,196	784,875	-
23,009,243	768,418	23,777,661	141,729
999,883	1,314,691	2,314,574	53,939
46,017,299	16,252,444	62,269,743	149,874
\$ 47,017,182	\$ 17,567,135	\$ 64,584,317	\$ 203,813

City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
Assets				
Cash and investments (Note 2)	\$ 6,455,217	\$ 1,392,510	\$ 5,121,103	\$ 702,605
Due from other governmental units (Note 3)	454,921	230,413	85,965	-
Accounts receivable (Note 3)	706,629	15,706	8,509	-
Special assessments receivable	-	-	-	1,627,095
Restricted assets (Note 7)	-	135,713	-	-
Prepaid expenses and deposits	274,064	-	-	-
Total assets	<u>\$ 7,890,831</u>	<u>\$ 1,774,342</u>	<u>\$ 5,215,577</u>	<u>\$ 2,329,700</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 430,821	\$ 1,104	\$ 392,153	\$ 4,890
Accrued and other liabilities	846,284	2,728	10,534	14,101
Due to other governmental units	541	40,330	-	-
Due to police and fire retirement system	1,478,779	-	-	-
Deferred revenue	683,633	-	-	1,507,095
Current liability payable from restricted assets	-	-	-	-
Total liabilities	3,440,058	44,162	402,687	1,526,086
Fund Balances				
Reserved for:				
Debt administration - Reported in nonmajor				
Debt Service Fund	-	-	-	-
Construction				
Special Revenue Funds	-	135,713	-	-
Capital Projects Fund	-	-	-	-
Prepaid expenses and deposits	274,064	-	-	-
Unreserved - Reported in (Note 13):				
General Fund	4,176,709	-	-	-
Special Revenue Funds	-	1,594,467	4,812,890	803,614
Unreserved, undesignated - Reported in nonmajor				
Special Revenue Fund	-	-	-	-
Total fund balances	<u>4,450,773</u>	<u>1,730,180</u>	<u>4,812,890</u>	<u>803,614</u>
Total liabilities and fund balances	<u>\$ 7,890,831</u>	<u>\$ 1,774,342</u>	<u>\$ 5,215,577</u>	<u>\$ 2,329,700</u>

**Governmental Funds
Balance Sheet
June 30, 2004**

Capital Projects - Fire Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 180,590	\$ 13,852,025
-	18,411	789,710
-	-	730,844
-	-	1,627,095
1,354,894	-	1,490,607
-	-	274,064
<u>\$ 1,354,894</u>	<u>\$ 199,001</u>	<u>\$ 18,764,345</u>
\$ -	\$ 14,644	\$ 843,612
-	7,612	881,259
-	-	40,871
-	-	1,478,779
-	-	2,190,728
496,759	-	496,759
496,759	22,256	5,932,008
-	114,896	114,896
-	-	135,713
858,135	-	858,135
-	-	274,064
-	-	4,176,709
-	-	7,210,971
-	61,849	61,849
858,135	176,745	12,832,337
<u>\$ 1,354,894</u>	<u>\$ 199,001</u>	<u>\$ 18,764,345</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2004

Total Fund Balances for Governmental Funds \$ 12,832,337

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 41,300,419

A portion of the special assessment receivable is expected to be collected over several years and was not available to pay for current year expenditures 1,507,095

A portion of the insurance claim receivable was not available to pay for current year expenditures 392,300

Historically, personal property taxes, net of uncollectibles, are not recorded as revenue in the government-wide statements until they become available to pay for current year expenditures 277,449

Compensated absences are included as a liability in governmental activities (2,202,437)

Long-term liabilities and contingencies that are not due and payable in the current period are not reported in the funds (7,044,550)

Accrued interest is not reported in the funds (45,431)

Net Assets of Governmental Activities \$ 47,017,182

City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
Revenues				
Intergovernmental	\$ 3,554,889	\$ 1,422,823	\$ 521,121	\$ -
Federal sources	17,776	-	-	-
Property taxes	18,636,426	-	-	-
Other	4,995,168	17,183	24,843	558,231
Total revenues	27,204,259	1,440,006	545,964	558,231
Expenditures				
Current:				
General government	5,512,158	-	-	-
Public safety	13,335,196	-	-	-
Community development and improvement	5,814,464	627,251	672,553	-
Cultural and recreation	2,426,638	-	-	-
Capital outlay	-	710,497	1,305,454	242,039
Debt administration	-	-	-	-
Total expenditures	27,088,456	1,337,748	1,978,007	242,039
Excess of Revenues Over (Under) Expenditures	115,803	102,258	(1,432,043)	316,192
Other Financing Sources (Uses)				
Operating transfers in	-	308,786	2,721,849	-
Operating transfers out	(2,542,846)	-	-	(956,822)
Total other financing sources (uses)	(2,542,846)	308,786	2,721,849	(956,822)
Change in Fund Balances	(2,427,043)	411,044	1,289,806	(640,630)
Extraordinary Item - Insurance proceeds (Note 14)	1,022,675	-	-	-
Net Change in Fund Balances	(1,404,368)	411,044	1,289,806	(640,630)
Fund Balances - July 1, 2003	5,855,141	1,319,136	3,523,084	1,444,244
Fund Balances - June 30, 2004	<u>\$ 4,450,773</u>	<u>\$ 1,730,180</u>	<u>\$ 4,812,890</u>	<u>\$ 803,614</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Capital Projects - Fire Station Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 58,569	\$ 5,557,402
-	112,865	130,641
-	-	18,636,426
31,433	69,213	5,696,071
31,433	240,647	30,020,540
-	-	5,512,158
-	87,255	13,422,451
-	112,865	7,227,133
-	-	2,426,638
4,308,588	48,935	6,615,513
-	325,486	325,486
4,308,588	574,541	35,529,379
(4,277,155)	(333,894)	(5,508,839)
-	469,033	3,499,668
-	-	(3,499,668)
-	469,033	-
(4,277,155)	135,139	(5,508,839)
-	-	1,022,675
(4,277,155)	135,139	(4,486,164)
5,135,290	41,606	17,318,501
<u>\$ 858,135</u>	<u>\$ 176,745</u>	<u>\$ 12,832,337</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (4,486,164)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	8,522,911
Statement of activities records depreciation on capital assets	(2,338,819)
The reduction in the carrying value of assets sold or disposed of is accounted for in the statement of activities, but not in the governmental funds	(240,216)
Special assessment revenues are recorded in the statement of activities when the assessed project is substantially complete; revenues are not reported in the funds until receivables are collected or collectable within 60 days of year end	932,872
Delinquent personal property taxes are recognized in the year of levy on the statement of activities	28,119
A portion of insurance proceeds recognized as revenue in the statement of activities in the prior year was recognized in the governmental funds in the current year when it became available to pay for current year expenditures	(953,997)
Debt payments on governmental obligation bonds are recorded in the statement of activities, but not in the governmental funds	155,000
Changes in interest payable are accrued and expensed on the statement of activities, but not in the governmental funds	1,220
Net changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when the obligations are earned in the statement of activities	(621,043)

Change in Net Assets of Governmental Activities \$ 999,883

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Net Assets June 30, 2004

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 2,983,380
Accounts receivable	2,104,325
Inventories	<u>35,845</u>

Total current assets 5,123,550

Noncurrent assets:

Restricted assets (Note 7)	3,818,584
Capital assets (Note 4)	<u>21,953,146</u>

Total noncurrent assets 25,771,730

Total assets 30,895,280

Liabilities

Current liabilities:

Accounts payable	662,923
Accrued liabilities	252,267
Cash bonds and deposits	101,871
Long-term debt - Due within one year (Note 6)	<u>489,837</u>

Total current liabilities 1,506,898

Noncurrent liabilities:

Current liabilities payable from restricted assets (Note 7)	199,875
Long-term debt - Net of amount due within one year (Note 6)	<u>11,621,372</u>

Total noncurrent liabilities 11,821,247

Total liabilities 13,328,145

Net Assets

Invested in capital assets - Net of related debt	13,254,046
Restricted	3,618,709
Unrestricted	<u>694,380</u>

Total net assets \$ 17,567,135

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2004

Operating Revenues

Sale of water	\$ 3,566,833
Sewage disposal	4,332,500
Other charges for services	<u>29,550</u>
Total operating revenues	7,928,883

Operating Expenses

Cost of water	1,819,730
Cost of sewage disposal	3,262,092
Water system maintenance	665,711
Water tapping and installation	19,344
Sewer system maintenance	467,868
General services building	429,424
General administration	1,134,946
Depreciation	<u>434,042</u>
Total operating expenses	<u>8,233,157</u>

Operating Loss (304,274)

Nonoperating Revenue (Expenses)

Interest and other income	52,222
Loss on sale of fixed assets	(19,350)
Interest expense - Net of capitalized interest	<u>(88,583)</u>

Loss - Before capital contributions and extraordinary item (359,985)

Capital Contributions 958,480

Extraordinary Item - Gain on insurance recovery (Note 14) 716,196

Change in Net Assets 1,314,691

Net Assets - July 1, 2003 16,252,444

Net Assets - June 30, 2004 \$ 17,567,135

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2004

Cash Flows from Operating Activities

Receipts from customers	\$ 7,680,197
Payments to employees	(581,041)
Payments to suppliers	<u>(7,191,378)</u>
Net cash used in operating activities	(92,222)

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt and related deposits with paying agent - Net of capitalized interest	(374,492)
Purchase of capital assets - Including capitalized interest	(2,594,107)
Insurance and other proceeds	<u>2,102,807</u>
Net cash used in capital and related financing activities	(865,792)

Cash Flows from Investing Activities - Interest received on investments

38,927

Net Decrease in Cash and Cash Equivalents

(919,087)

Cash and Cash Equivalents - July 1, 2003

3,902,467

Cash and Cash Equivalents - June 30, 2004

\$ 2,983,380

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (304,274)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	434,042
Changes in assets and liabilities:	
Customer receivables	(248,686)
Inventory	(25,621)
Accounts payable	48,096
Accrued liabilities	(12,969)
Cash bonds and deposits	<u>17,190</u>
Net cash used in operating activities	<u><u>\$ (92,222)</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, the Water and Sewer Fund received debt draw-downs totaling \$3,924,094, recorded \$958,480 in capital contributions, and spent \$3,109,190 (net of \$20,236 in off-setting interest earnings) for construction related to the new Kuhn Drain wastewater facilities. This activity, administered by Oakland County, Michigan, is recorded in the restricted assets held at the County. Finally, in relation to the fire discussed in Note 14, \$206,600 of the total Water and Sewer Fund insurance claim was not received as of June 30, 2004 and is recorded as a nonoperational account receivable as of that date.

City of Madison Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Trust Fund - Pension and Other Retirement Benefits	Agency Funds
	Police and Fire Retirement	
Assets		
Cash and cash equivalents	\$ -	\$ 744,670
Investments:		
Corporate bonds and notes	7,210,631	-
U.S. government securities	1,717,185	-
Federal agency obligations	3,783,680	-
Common stocks	15,673,073	-
Broker cash management funds	4,791,970	-
Small cap mutual funds	12,366,955	-
Accrued interest receivable and other	224,354	-
Due from City General Fund	1,478,779	-
Total assets	47,246,627	<u><u>\$ 744,670</u></u>
Liabilities		
Accounts payable	-	\$ 198
Prepaid taxes	-	27,824
Cash bonds and deposits	-	716,648
Total liabilities	-	<u><u>\$ 744,670</u></u>
Net Assets - Reserved for police and fire retirement	<u><u>\$ 47,246,627</u></u>	

City of Madison Heights, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

		Trust Fund - Pension and Other Retirement Benefits
Additions		
Investment income:		
Interest and dividends	\$ 1,434,405	
Net appreciation of investment value	2,100,192	
Less investment expenses	<u>(257,320)</u>	
Net investment income		3,277,277
Contributions:		
Employer:		
Pension benefits	\$ 1,221,459	
Postretirement benefits	902,815	
Investment and administrative expenses	<u>472,053</u>	2,596,327
Employees		<u>554,531</u>
Total contributions		<u>3,150,858</u>
Total additions		6,428,135
Deductions		
Benefit payments:		
Pension	2,870,019	
Withdrawals	109,471	
Postretirement medical benefits	<u>902,815</u>	3,882,305
Administrative expenses		<u>214,733</u>
Total deductions		<u>4,097,038</u>
Net Increase		2,331,097
Net Assets - Reserved for police and fire retirement		
Beginning of year		<u>44,915,530</u>
End of year		<u><u>\$ 47,246,627</u></u>

City of Madison Heights, Michigan

Component Units Statement of Net Assets June 30, 2004

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Totals
Assets				
Cash and investments (Note 2)	\$ 13,260	\$ 2,353	\$ 90,762	\$ 106,375
Due from other governmental unit	66,940	-	-	66,940
Capital assets (Note 4)	-	-	114,044	114,044
Total assets	80,200	2,353	204,806	287,359
Liabilities				
Accounts payable	253	-	3,346	3,599
Accrued liabilities	5,595	-	-	5,595
Deferred revenue	6,349	-	-	6,349
Deposits	68,003	-	-	68,003
Total liabilities	80,200	-	3,346	83,546
Net Assets				
Invested in capital assets	-	-	114,044	114,044
Unrestricted	-	2,353	87,416	89,769
Total net assets	\$ -	\$ 2,353	\$ 201,460	\$ 203,813

City of Madison Heights, Michigan

		Program Revenues	
		Operating	Capital Grants
	Charges for	Grants and	and
Expenses	Services	Contributions	Contributions
Housing Commission	\$ 1,761,273	\$ -	\$ 1,748,244
Downtown Development Authority	74,761	-	-
Total governmental activities	<u>\$ 1,836,034</u>	<u>\$ -</u>	<u>\$ 1,748,244</u>

General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - July 1, 2003

Net Assets - June 30, 2004

**Component Units
Statement of Activities
Year Ended June 30, 2004**

Net (Expense) Revenues and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ (13,029)	\$ -	\$ -	\$ (13,029)
-	-	(74,761)	(74,761)
(13,029)	-	(74,761)	(87,790)
-	-	126,387	126,387
-	-	1,012	1,012
13,029	-	1,301	14,330
13,029	-	128,700	141,729
-	-	53,939	53,939
-	2,353	147,521	149,874
<u>\$ -</u>	<u>\$ 2,353</u>	<u>\$ 201,460</u>	<u>\$ 203,813</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Madison Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

The Madison Heights Municipal Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as a blended component unit because its primary purpose is to finance and construct the City's public buildings. The Authority was inactive during the current fiscal year.

Discretely Presented Component Units

Housing Commission

The Housing Commission provides low-income families with the opportunity to receive federally subsidized rent payments. The funds are obtained through the Department of Housing and Urban Development. The Housing Commission serves over 200 families. The Housing Commission's governing body consists of five individuals selected by the City Council. In addition, the Housing Commission's budget is subject to approval by the City Council.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Economic Development Corporation

The Economic Development Corporation (the "Corporation") is organized pursuant to Public Act 338 of 1974, as amended. The primary purpose of the Corporation is to encourage and assist commercial and industrial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the issuance of limited general obligation revenue bonds by the Corporation. The bonds are payable solely from the net revenue derived from the respective projects and are not an obligation of the Corporation. The Corporation's governing body consists of five individuals selected by the City Council. In addition, the Corporation's budget is subject to approval by the City Council. There was no activity in the current year.

Downtown Development Authority

The Downtown Development Authority (the "DDA") was established to correct and prevent stagnation and deterioration within the south end commercial business district. The DDA has established boundaries that include property abutting John R Road from Gardenia to Ten Mile Road and Eleven Mile Road from Interstate 75 to Lorenz. The properties are primarily zoned and used for commercial and industrial purposes. The DDA's goal is to eliminate blighting influences and undertake projects that will encourage new businesses to locate and existing businesses to remain in the area. The DDA is developing programs to solicit commitment and investment from business owners to make improvements on private property that will serve the public purpose of enhancing the district. Revenue is provided through the capture of incremental taxes on properties within the district. The DDA's governing body, which consists of the mayor and 12 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council.

Brownfield Redevelopment Authority

The Brownfield Redevelopment Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Madison Heights. The Authority's governing body, which consists of 13 individuals, is comprised of the Downtown Development Authority's board members. Currently, the Authority is in the preliminary stages of development and activities are non-financial in nature. Additionally, the Authority's budget, once adopted, will be subject to approval by the City Council.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes, grants, interest on investments, and maintenance reimbursements from Oakland and Macomb Counties.

Local Streets Fund - The Local Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds (including transfer from the City's General Fund of the proceeds of a special 2 mill property tax levy for neighborhood road improvements), and interest income.

Revolving Fund - The Revolving Fund's purpose is to record revenues and related project expenditures for special assessment districts that are not funded by bond issues.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Projects Fund - Fire Station - The purpose of this fund is to account for the proceeds of bond issuance and expenditures associated with the construction of the new fire department headquarters.

The City also reports its major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, billing, and collection.

Additionally, the City reports the following nonmajor governmental and Agency Funds:

Curtail Auto Theft Fund - The Curtail Auto Theft Fund administers grant funds from the State of Michigan for the purpose of a multi-jurisdictional anti-theft unit in the police department. The City provides one police officer and the training that is needed to fulfill the duties.

Community Improvement Fund Program - The Community Improvement Fund Program (C.I.P.) is a federally funded division of the Community Development Department. It is charged with the administration of the City's Block Grant program. Block Grant funds are used for such projects as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, and other similar projects that benefit low- and moderate-income residents. In addition, C.I.P. provides assistance to low-income families in securing low interest and/or deferred home improvement loans.

Forfeiture Fund - The Forfeiture Fund is used to account for revenues generated by drug forfeitures and expenditures related to the enforcement of drug laws per Public Act 251 of 1982.

Fire Station Debt Service Fund - The Fire Station Debt Service Fund accounts for the principal and interest payments on the bonds for the new fire station headquarters. Revenues to this fund are generated by an ad valorem property tax.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Police and Fire Retirement Fund - The Police and Fire Retirement Fund is used to account for the accumulation of resources to be used for retirement annuity payments. The fund accounts for trustee and investment expenses, administrative costs, auditing and actuarial fees related to the system, and retiree health benefits. Resources are provided by contributions from employees at rates fixed by contract and contributions from the City at amounts determined by an annual actuarial valuation.

Tax Collection Fund - The Tax Collection Fund is used to account for the collection and distribution of property taxes collected by the City on behalf of others.

Escrow Fund - The Escrow Fund is used to record deposits by outside individuals or organizations. The City acts as a trustee for these funds. A performance bond is an example of this kind of deposit.

Proprietary Funds - Proprietary funds, such as the Water and Sewer Fund, distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary fund relate to charges to customers for water sales and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenues. The portion intended to recover the cost of the infrastructure is recognized as contributed capital.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income related to monies provided by the various funds (except the Police and Fire Retirement System) and the component units of the City are allocated to each fund and component unit using a weighted average of the invested principal balances.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property Tax Revenue - All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2003 taxable valuation of the City totaled \$1,080 million and was used for the July 1, 2003 tax bills; this resulted in property tax revenue as follows:

<u>Purpose</u>	<u>Mills Levied</u>	<u>Approximate Revenue</u>
City charter operating millage	8.816	\$ 9,521,280
Sanitation operations	2.105	2,273,400
Police and fire retirement	2.260	2,440,800
Roads and vehicles	2.405	2,597,400
Advanced life support systems	0.240	259,200
Senior citizens	0.474	511,920
Fire Station Bond	0.410	442,800

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of the business-type fund are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items or deposits in both government-wide and fund financial statements.

Restricted Assets - Assets of the Major Streets Fund have been restricted for future construction pursuant to a legal agreement and fund balance in the corresponding amount of \$135,713 has been reserved.

The assets of the Capital Projects Fund have been restricted for construction by the bond ordinance and fund balance has been reserved for construction costs related to the completion of the fire station.

Assets of the Water and Sewer Fund held at the County represent unspent bond and loan proceeds held by the County for future construction. Net assets of the Water and Sewer Fund have been restricted for the \$3,412,109 held by the County for future construction as well as the remaining \$206,600 insurance claim receivable at June 30, 2004 that will be paid directly to the contractor restoring the damaged building (see Note 14). Restricted assets of the Water and Sewer Fund also include \$199,875 on deposit with the paying agent, which is offset by a corresponding debt obligation.

Capital Assets - Capital assets, which include property, plant, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, utility system water and sewer lines, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles were assigned a salvage value of 10 percent of historical cost and are depreciated using the straight-line method over the following useful lives:

Building and land improvements	50 years
Computer and other equipment	5-10 years
Furniture and fixtures	5-10 years
Vehicles	5 years

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Infrastructure assets are depreciated using the straight-line method over the following useful lives:

New construction and reconstruction of roads	25 years
Resurfacing	15 years
Intersection improvements	15 years
Bridge repairs	50 years
Sidewalks	15 years
Utility system and drains	20-50 years

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned and sick pay is accrued when vested (or likely to vest). All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Bond issuance costs are generally reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are generally reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenues - Amounts reported as program revenues in the statement of activities include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investments in bonds, securities, and commercial paper of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 13,852,025	\$ 2,983,380	\$ 744,670	\$ 17,580,075	\$ 106,375
Marketable securities	-	-	45,543,494	45,543,494	-
Restricted assets	<u>1,490,607</u>	<u>-</u>	<u>-</u>	<u>1,490,607</u>	<u>-</u>
Total	<u>\$ 15,342,632</u>	<u>\$ 2,983,380</u>	<u>\$ 46,288,164</u>	<u>\$ 64,614,176</u>	<u>\$ 106,375</u>

The City's deposits and investments at June 30, 2004 totaled \$64,801,999, of which \$18,326,012 is included on the primary government statement of net assets (\$16,835,405 under the classification of "cash and investments" and \$1,490,607 under the classification of "restricted assets") (see Note 7). The remaining \$46,475,987 of deposits and investments is included in the fiduciary funds statement of net assets under the classifications of "cash and cash equivalents" and "investments." These amounts are classified by Governmental Accounting Standards Board Statement No. 3 into the following categories:

	City		Component
	Primary Government Funds	Fiduciary Funds	Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 13,368,227	\$ 744,670	\$ 106,375
Investment in bank investment pool	4,951,000	-	-
Marketable securities	-	45,543,494	-
Petty cash or cash on hand	<u>6,785</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 18,326,012</u>	<u>\$ 46,288,164</u>	<u>\$ 106,375</u>

Deposits

The City's above deposits, including short-term certificates of deposit, were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or deposits and transfers in transit) at \$14,604,865. Of that amount, up to \$500,000 was covered by federal depository insurance and approximately \$14,104,865 was uninsured and uncollateralized.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Pension Trust Fund is also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$100 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent in the City's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

Police and Fire Retirement Fund

Category 2 investments:

Corporate bonds and notes	\$ 7,210,631
U.S. government securities	1,717,185
Federal agency obligations	3,783,680
Common stocks	<u>15,673,073</u>
Subtotal	28,384,569

Investments not subject to categorization:

Broker cash management funds	4,791,970
Small cap mutual funds	<u>12,366,955</u>

Total Police and Fire Retirement Fund 45,543,494

Other Funds - Bank investment pool 4,951,000

Total City investments \$ 50,494,494

Mutual funds, cash management funds, and pooled accounts are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pool is regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares. Except for the bank investment pool, the City's investments are held by the Pension Fund.

Included in the Pension Fund's investments at June 30, 2004 are the following:

- Approximately \$110,000 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

- Asset-backed securities of approximately \$1,593,000 and commercial mortgage-backed securities of approximately \$345,000. These securities are generally backed by mortgages, credit card, or other receivables. These obligations typically include credit enhancements in the form of over-collateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayments for these “pay through” securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$3,535,000 of securities issued by Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLM). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Component Units

The cash and investments of the City’s component units consist of bank deposits of \$106,375 at June 30, 2004. The deposits are administered by the City. The federal depository insurance pertains to all of the above deposits of the City; hence, the specific coverage pertaining to the component units’ deposits, if any, is not determinable.

Note 3 - Receivables

Receivables as of year end for the City’s individual major governmental funds and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Nonmajor Funds	Total
Receivables:					
Accounts	\$ 706,629	\$ 15,706	\$ 8,509	\$ -	\$ 730,844
Intergovernmental	454,921	230,413	85,965	18,411	789,710
Net receivables	<u>\$ 1,161,550</u>	<u>\$ 246,119</u>	<u>\$ 94,474</u>	<u>\$ 18,411</u>	<u>\$ 1,520,554</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Personal property taxes	\$ 277,449	\$ -
Special assessments	1,507,095	-
Insurance proceeds	392,300	-
Grant revenue	-	13,884
Total	<u>\$ 2,176,844</u>	<u>\$ 13,884</u>

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,189,153	\$ -	\$ -	\$ 2,189,153
Construction in progress	789,710	-	789,710	-
Subtotal	2,978,863	-	789,710	2,189,153
Capital assets being depreciated:				
Infrastructure:				
Streets and bridges	26,341,058	2,015,951	-	28,357,009
Sidewalks	1,748,709	230,839	-	1,979,548
Buildings and improvements	11,447,361	4,612,478	5,760	16,054,079
Land improvements	1,590,848	29,041	-	1,619,889
Machinery and equipment	1,935,379	68,572	513,922	1,490,029
Furniture and fixtures	413,650	10,000	126,326	297,324
Vehicles	4,222,195	2,272,868	387,917	6,107,146
Office equipment	3,000,620	72,872	420,923	2,652,569
Subtotal	50,699,820	9,312,621	1,454,848	58,557,593
Accumulated depreciation	(18,322,140)	(2,338,819)	(1,214,632)	(19,446,327)
Net capital assets being depreciated	32,377,680	6,973,802	240,216	39,111,266
Net capital assets	<u>\$ 35,356,543</u>	<u>\$ 6,973,802</u>	<u>\$ 1,029,926</u>	<u>\$ 41,300,419</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type activities (Water and Sewer Fund):				
Capital assets not being depreciated:				
Land	\$ 164,413	\$ -	\$ -	\$ 164,413
Construction in progress	4,757,662	2,923,575	-	7,681,237
Subtotal	4,922,075	2,923,575	-	7,845,650
Capital assets being depreciated:				
Utility systems	16,317,776	575,014	2,069	16,890,721
Kuhn drain - Segment I	2,296,187	364,547	-	2,660,734
Buildings and improvements	1,190,219	1,500,226	1,617	2,688,828
Machinery and equipment	2,063,702	344,294	188,680	2,219,316
Subtotal	21,867,884	2,784,081	192,366	24,459,599
Accumulated depreciation:				
Utility systems	8,171,527	325,609	1,677	8,495,459
Buildings and improvements	183,900	19,999	1,617	202,282
Machinery and equipment	1,735,650	88,434	169,722	1,654,362
Subtotal	10,091,077	434,042	173,016	10,352,103
Net capital assets being depreciated	11,776,807	2,350,039	19,350	14,107,496
Net capital assets	\$ 16,698,882	\$ 5,273,614	\$ 19,350	\$ 21,953,146

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 420,433
Public safety	506,498
Public works	1,203,399
Community development	48,492
Recreation	132,071
Solid waste	27,926
Total governmental activities	<u>\$ 2,338,819</u>
Business-type activities - Water and sewer	<u>\$ 434,042</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets (Continued)

Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements in the amount of \$114,044 net of accumulated depreciation of \$8,315, as of June 30, 2004. Current year additions totaled \$5,124 and depreciation expense for the current year was \$2,110.

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2004, the City did not have any interfund receivables or payables other than the \$1,478,779 payable from the General Fund to the Police and Fire Retirement Fund.

Interfund transfers reported in the fund statements are as follows:

	Transfers Out		
	General Fund	Revolving	Total
Transfers in:			
Major Streets Fund	\$ -	\$ 308,786	\$ 308,786
Local Streets Fund	2,073,813	648,036	2,721,849
Other governmental funds:			
Fire Station Debt Service Fund	440,347	-	440,347
Curtail Auto Theft Fund	28,686	-	28,686
Total	<u>\$ 2,542,846</u>	<u>\$ 956,822</u>	<u>\$ 3,499,668</u>

The transfers from the General Fund to the Local Streets Fund represent the transfer of property taxes collected for a special street millage. The transfers from the General Fund to the Fire Station Debt Service Fund represent the transfer of property taxes to pay the debt service requirement on the Fire Station Bond. The transfers from the General Fund to the Curtail Auto Theft (CAT) Fund represent CAT Grant monies. The transfers from the Revolving Fund to the Major Streets and Local Streets Funds were to transfer monies for projects to improve major and local streets within the community.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Interest Rate	Maturing Through	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental activities:							
General obligations:							
Vested employee benefits	-	-	\$ 2,122,610	\$ 140,108	\$ 60,281	\$ 2,202,437	\$ -
Reserve for general liability insurance claims	-	-	733,334	541,216	-	1,274,550	-
General obligation bonds:							
Amount of issue - \$5,925,000							
For financing the construction of a new fire station	2% - 3.875%	2021	5,925,000	-	155,000	5,770,000	165,000
Total governmental activities			<u>\$ 8,780,944</u>	<u>\$ 681,324</u>	<u>\$ 215,281</u>	<u>\$ 9,246,987</u>	<u>\$ 165,000</u>
Business-type activities:							
Water and Sewer Revenue Bonds:							
Amount of issue - \$1,500,000							
For the purpose of financing water and sewer improvements	5%	2005	\$ 380,000	\$ -	\$ 185,000	\$ 195,000	\$ 195,000
General obligations (related to the Oakland County Drainage District project discussed below):							
Series 2000A - Net of \$56,721 amounts not drawn down as of June 30, 2004 - Amount of issue - \$1,881,478	2.5%	2022	1,751,097	-	75,238	1,675,859	77,343
Series 2000B - Amount of issue - \$691,348	4.75%-5.375%	2022	670,302	-	21,046	649,256	23,676
Series 2000C - Amount of issue - \$8,747,493	2.5%	2024	4,823,399	3,924,094	-	8,747,493	351,988
Series 2000D - Amount of issue - \$333,573 - Net of \$333,573 not drawn down as of June 30, 2004	2.5%	2024	-	-	-	-	-
Series 2000E - Amount of issue - \$1,038,601	4.0%-5.25%	2024	1,038,601	-	-	1,038,601	36,830
Total business-type activities			<u>\$ 8,663,399</u>	<u>\$ 3,924,094</u>	<u>\$ 281,284</u>	<u>\$ 12,306,209</u>	<u>684,837</u>
Current liabilities payable from restricted assets							(195,000)
Net amount due within one year							<u>\$ 489,837</u>

Governmental Activities

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently. Under the City's policies, employees earn sick, vacation, and longevity time based on time of service with the City.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

The reserve for general liability insurance claims is discussed in Note 8.

Business-type Activities

The five general obligations recorded in the Enterprise Fund represent the City's obligations to service a portion, approximating 10.5 percent, of two bond issues and three State Revolving Fund loans related to the sewer construction project discussed in Note 11.

The obligations were issued by the Oakland County Drainage District on behalf of 14 participating communities, the County of Oakland, and the State of Michigan. The City has pledged its full faith and credit related to the repayment of these obligations and has recorded the liabilities in the Enterprise (Water and Sewer) Fund since it is anticipated that the debt service requirements of these obligations will be provided from the revenues of this fund.

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004 (excluding compensated absences and other claims), including both principal and interest, are as follows:

Years Ending June 30	Business-type Activities (Water and Sewer Fund)			Governmental-type Activities		
	Principal*	Interest*	Total	Principal	Interest	Total
2005	\$ 684,837	\$ 316,033	\$ 1,000,870	\$ 165,000	\$ 191,835	\$ 356,835
2006	500,360	297,057	797,417	185,000	188,535	373,535
2007	514,040	283,426	797,466	195,000	184,835	379,835
2008	527,719	269,283	797,002	210,000	180,448	390,448
2009	541,398	254,645	796,043	220,000	175,198	395,198
2010-2014	2,922,264	1,038,599	3,960,863	1,300,000	771,190	2,071,190
2015-2019	3,371,515	597,953	3,969,468	1,735,000	536,706	2,271,706
2020-2024	3,634,370	88,665	3,723,035	1,760,000	196,512	1,956,512
Total	<u>\$ 12,696,503</u>	<u>\$ 3,145,661</u>	<u>\$ 15,842,164</u>	<u>\$ 5,770,000</u>	<u>\$ 2,425,259</u>	<u>\$ 8,195,259</u>

* The business-type general obligations related to the State Revolving Fund loans accrue interest only on the portion of the loans drawn down to date. The principal and interest components related to these instruments in the above maturity schedule assume that the \$390,294 un-drawn portions of the obligations are drawn on July 1, 2004.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

Interest

The City's business-type activities had total interest expense for the year ended June 30, 2004 of approximately \$268,000 (of which approximately \$179,000, net of off-setting interest income, was capitalized in the Water and Sewer Fund.) The City's governmental type activities had total interest expense of approximately \$170,000 for the same period.

No Commitment Debt

Excluded from the governmental activities obligations are revenue bonds of the Economic Development Corporation issued to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenues derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of June 30, 2004, there were four series of such bonds outstanding. The aggregate original issue amount of these bonds was \$9,590,000. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Note 7 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Funds		Enterprise Fund - Water and Sewer		
	Special Revenue Fund - Major Streets	Capital Projects Fund - Fire Station	Revenue Bond and Interest Redemption	Construction	Total
Cash and investments	\$ 135,713	\$ 1,354,894	\$ -	\$ -	\$ 1,490,607
Deposit with paying agent	-	-	199,875	-	199,875
Insurance claim receivable	-	-	-	206,600	206,600
Assets held at the County	-	-	-	3,412,109	3,412,109
Total assets restricted	135,713	1,354,894	199,875	3,618,709	5,309,191
Less current liabilities payable from restricted assets:					
Accrued interest	-	-	4,875	-	4,875
Current portion of long-term debt	-	-	195,000	-	195,000
Accounts payable	-	496,759	-	-	496,759
Total current liabilities payable from restricted assets	-	496,759	199,875	-	696,634
Net assets restricted	\$ 135,713	\$ 858,135	\$ -	\$ 3,618,709	\$ 4,612,557

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health, dental, optical, and life insurance claims, participates in the Michigan Municipal League risk pool for workers' compensation claims, and participates in the Michigan Municipal Risk Management Authority risk pool for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Annual premiums paid to the Authority are used to pay claims up to the retention limits. However, the ultimate liability for those claims remains with the City.

The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$462,000 in any one year. The City's policy is to record premium payments to the Authority as expenditures of the participating funds.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The portion of this liability that relates to governmental fund activities and is not expected to be liquidated with expendable available financial resources is recorded as a noncurrent liability in the statement of net assets. The remaining balance of the liability is recorded in the applicable fund, net of any funds on deposit that the Authority previously expensed. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the estimated liability for the past two fiscal years were as follows:

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Risk Management (Continued)

	<u>2004</u>	<u>2003</u>
Estimated liability - Beginning of year	\$ 733,334	\$ 978,014
Estimated claims incurred, including reinsurance premiums and changes in estimates	2,258,129	4,743,130
Claim and reinsurance premium payments and reinsurance recoveries	<u>(1,716,913)</u>	<u>(4,987,810)</u>
Estimated liability - End of year	<u>\$ 1,274,550</u>	<u>\$ 733,334</u>

Additionally, the City is involved in several contingent matters relating to lawsuits and claims. In the opinion of the City, the probability of material exposure, if any, to the City in excess of amounts currently recorded as a result of the resolution of these matters is remote.

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Police and Fire Retirement System

Plan Description - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administrated by the City of Madison Heights Police and Fire Employees' Retirement System; this plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 102 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 98 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 8.93 percent of gross wages for firefighters and fire command, 8.0 percent for police command, 9.20 percent for police through July 17, 2003 and 6.67 percent effective July 18, 2003, and 11.94 percent for department heads through September 30, 2003 and 9.41 percent effective October 1, 2003. The funding policy provides for periodic employer contributions at actuarially determined rates. In addition, during the year ended June 30, 2004, the City's General Fund contributed, and the Police and Fire Retirement expensed, \$472,053 related to investment and administrative expenses.

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost was \$1,221,459, excluding contributions for postretirement benefits and administrative expenses, and exclusive of employee contributions of \$554,531. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return including 5.5 percent per year compounded annually, attributable to inflation, (b) projected salary increases of 5.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. As of June 30, 2003, the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The overfunded actuarial liability is being amortized over a closed 12-year period.

Three-year trend information is as follows:

	Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ 845,881	\$ 951,923	\$ 1,221,459
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Reserves - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 5,493,555
Reserve for retired benefit payments	31,162,829

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Supplementary Information

The required supplementary information (see table of contents) presented directly following the notes to the financial statements contained in the combining, individual fund, and account group statements and schedules section is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

Postemployment Health Care Plan

Effective July 1, 1988, the Police and Fire Retirement System assumed the reporting responsibility for the payment of postemployment health benefits for retired police and fire employees that were previously recorded as an expense in the General Fund. During the year ended June 30, 2004, the City's General Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling \$902,815. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees.

Michigan Municipal Employees' Retirement System

Plan Description - The City of Madison Heights participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City other than police and fire employees. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Teamsters and AFSCME collective bargaining units and requires a contribution from the employees ranging from 0.0 percent to 3.26 percent of gross wages.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$454,680 for the plan, exclusive of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, including 4.5 percent per year, compounded annually, for inflation, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The amortization period is 30 years.

Three-year trend information is as follows:

		Year Ended June 30		
		2002	2003	2004
Annual pension cost (APC)		\$ 306,017	\$ 372,744	\$ 454,680
Percentage of APC contributed		100%	100%	100%
Net pension obligation		\$ -	\$ -	\$ -

Actuarial	Actuarial	Actuarial	Unfunded		UAAL as a	Funded
Valuation	Value of	Accrued	(Overfunded)		Percentage of	Ratio
Date	Assets	Liability	AAL (UAAL)	Valuation	Valuation	(Percent)
	(a)	(b)	(b-a)	Payroll	Payroll	(a/b)
12/31/01	\$ 22.39	\$ 22.94	\$ 0.55	\$ 5.30	10.4	97.6
12/31/02	22.30	23.83	1.53	5.30	28.9	93.6
12/31/03	23.18	25.52	2.34	5.50	42.6	90.8

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Postemployment Benefits

The City provides health care benefits to retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Currently, 114 retirees are eligible. Benefits of retirees other than police and fire retirees are paid and expensed by the General Fund and totaled \$399,325 for the year ended June 30, 2004. Benefits of police and fire retirees are reported and expensed by the Police and Fire Retirement Fund utilizing funds contributed by the General Fund for this purpose.

During the year ended June 30, 2004, the Police and Fire Retirement Fund expensed \$902,815 for these benefits (see Note 9).

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the City's fiscal year ending June 30, 2008.

Note 11 - Commitments

Infrastructure Construction - The City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) had previously agreed to undertake improvements to the Twelve Towns Retention Facility to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$128 million, with the City's estimated share approximating \$13 million. The SOCSDS is financing the project by issuing debt, including low-interest (2.5 percent) State Revolving Fund money loans, with each community funding their proportionate share of the debt service payments. Additionally, the SOCSDS communities have obtained approximately \$4.3 million in federal grants for the project.

As of June 30, 2004, the SOCSDS had obtained aggregate financing of approximately \$120,000,000 (of which approximately \$117,000,000 had been received or drawn down) and had incurred approximately \$95,000,000 of costs related to the project. Included in the City's Water and Sewer Fund financial statements at June 30, 2004 was approximately \$10,342,000 of system improvements and construction in progress, \$3,412,000 of assets held at the County, and \$12,111,000 of general obligations payable, representing the major components of the City's interest in the project's activity at that date.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 11 - Commitments (Continued)

Building Construction - At June 30, 2004, the City has an active construction project underway to construct a fire station headquarters that is being funded by an Unlimited Tax (general obligation) bond issue. At year end, project expenditures to date were \$5,066,865 and the remaining commitment to contractors is approximately \$800,000.

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2003		\$ (665,114)
Current year building permit revenue		539,945
Current year related expenses:		
Direct costs	\$ 438,424	
Estimated indirect costs	<u>375,562</u>	
Total construction code expenditures		<u>813,986</u>
Cumulative shortfall - June 30, 2004		<u><u>\$ (939,155)</u></u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 13 - Designated Fund Balances

The following is a summary of the unreserved fund balances of the major governmental funds with management's designations:

Designated for	Funds				
	General	Major Steet	Local Street	Revolving	Fire Station
Vested employee benefits	\$ 2,202,437	\$ -	\$ -	\$ -	\$ -
Subsequent years' expenditures	508,718	752,100	-	111,804	-
Retained insurance risks	329,525	-	-	-	-
Vehicle replacement	1,136,029	-	-	-	-
Anticipated refunds	-	-	-	322,089	-
Total designated	4,176,709	752,100	-	433,893	-
Total undesignated	-	842,367	4,812,890	369,721	-
Total unreserved	<u>\$ 4,176,709</u>	<u>\$ 1,594,467</u>	<u>\$ 4,812,890</u>	<u>\$ 803,614</u>	<u>\$ -</u>

Note 14 - Extraordinary Item Related to Gain on Insurance Recovery

During the year ended June 30, 2003, a fire occurred at a building that is an asset of the Water and Sewer Fund, extensively damaging the structure. Also damaged or destroyed in the fire were a significant number of vehicles and a large amount of tools, supplies, furniture, and equipment. Other than the building itself, virtually all of the lost assets were the property of the governmental funds.

In the year ended June 30, 2003, the City filed an insurance claim to restore the building, recover the insured value of impaired assets (generally at fair value as opposed to original or replacement cost), and recover other costs incident to the event, consistent with the terms of the City's insurance coverage. Additionally, the City wrote off the net carrying value (historic cost less accumulated depreciation) of the destroyed assets that had previously been capitalized.

In the current year, the amount of the insurance claim was increased and additional receivables of \$68,679 and \$716,196 were recorded in the General Fund and the Water and Sewer Fund, respectively. These amounts are reported as an extraordinary item in the statement of activities for the year ended June 30, 2004. The claim adjustment related principally to the revision of the costs necessary to restore the damaged building.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 14 - Extraordinary Item Related to Gain on Insurance Recovery (Continued)

Included in accounts receivable of the General Fund and the Water and Sewer Fund (as a restricted asset) at June 30, 2004 were \$392,300 and \$206,600, respectively, for the remaining unpaid insurance claims.

In the governmental funds statement of revenue, expenditures, and changes in fund balance for the year ended June 30, 2004, the General Fund recognized an extraordinary item related to the insurance recovery of \$1,022,675. This amount represents the current year receipt of the portion of the receivable that had been recorded in the prior year but had not been available for use as of that date. Similarly, the General Fund has deferred the revenue recognition of the \$392,300 claim amount recorded as a receivable at June 30, 2004 in this statement until such time as these funds become available for use.

The City has used and intends to use the insurance proceeds to restore and replace the assets lost in the fire. These acquisitions will be capitalized consistent with the City's established policies, as they are made.

In the statement of net assets at June 30, 2004, the Water and Sewer Fund has presented the remaining \$206,600 insurance claim receivable as a restricted asset since the insurance company is making direct payments to a third party to restore the building.

Required Supplemental Information

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 3,629,626	\$ 3,611,287	\$ 3,572,665	\$ (38,622)
Property taxes	18,253,963	18,703,963	18,636,426	(67,537)
Gain on insurance recovery	-	1,877,662	1,022,675	(854,987)
Other	<u>4,773,297</u>	<u>4,853,488</u>	<u>4,995,168</u>	<u>141,680</u>
Total revenues	26,656,886	29,046,400	28,226,934	(819,466)
Expenditures				
General government	7,607,391	8,208,841	8,055,004	(153,837)
Public safety	12,535,369	13,281,174	13,335,196	54,022
Community development and services	4,138,644	5,983,503	5,814,464	(169,039)
Culture and recreation	<u>2,375,482</u>	<u>2,518,579</u>	<u>2,426,638</u>	<u>(91,941)</u>
Total expenditures	<u>26,656,886</u>	<u>29,992,097</u>	<u>29,631,302</u>	<u>(360,795)</u>
Excess of Expenditures over Revenues	-	(945,697)	(1,404,368)	(458,671)
Fund Balance - July 1, 2003	<u>5,855,141</u>	<u>5,855,141</u>	<u>5,855,141</u>	-
Fund Balance - June 30, 2004	<u>\$ 5,855,141</u>	<u>\$ 4,909,444</u>	<u>\$ 4,450,773</u>	<u>\$ (458,671)</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 1,311,203	\$ 1,311,203	\$ 1,422,823	\$ 111,620
Transfers in	-	287,633	308,786	21,153
Other	110,000	110,000	17,183	(92,817)
Total revenues	1,421,203	1,708,836	1,748,792	39,956
Expenditures	1,279,100	1,687,488	1,337,748	(349,740)
Excess of Revenues Over Expenditures	142,103	21,348	411,044	389,696
Fund Balance - July 1, 2003	1,319,136	1,319,136	1,319,136	-
Fund Balance - June 30, 2004	<u>\$ 1,461,239</u>	<u>\$ 1,340,484</u>	<u>\$ 1,730,180</u>	<u>\$ 389,696</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 467,631	\$ 467,631	\$ 521,121	\$ 53,490
Transfers in	2,400,944	3,137,915	2,721,849	(416,066)
Other	20,000	20,000	24,843	4,843
Total revenues	2,888,575	3,625,546	3,267,813	(357,733)
Expenditures	1,859,615	2,923,615	1,978,007	(945,608)
Excess of Revenues Over Expenditures	1,028,960	701,931	1,289,806	587,875
Fund Balance - July 1, 2003	3,523,084	3,523,084	3,523,084	-
Fund Balance - June 30, 2004	<u>\$ 4,552,044</u>	<u>\$ 4,225,015</u>	<u>\$ 4,812,890</u>	<u>\$ 587,875</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Revolving Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues - Other	\$ 130,000	\$ 130,000	\$ 558,231	\$ 428,231
Expenditures	<u>468,154</u>	<u>1,511,758</u>	<u>1,198,861</u>	<u>(312,897)</u>
Excess of Expenditures Over Revenues	(338,154)	(1,381,758)	(640,630)	741,128
Fund Balance - July 1, 2003	<u>1,444,244</u>	<u>1,444,244</u>	<u>1,444,244</u>	<u>-</u>
Fund Balance - June 30, 2004	<u>\$ 1,106,090</u>	<u>\$ 62,486</u>	<u>\$ 803,614</u>	<u>\$ 741,128</u>

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows (in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
<u>Police and Fire Retirement System</u>						
6/30/98	\$ 41.91	\$ 40.09	\$ (1.82)	\$ 5.27	-	104.5
6/30/99	45.29	44.42	(0.87)	5.80	-	102.0
6/30/00	47.69	46.24	(1.45)	5.59	-	103.1
6/30/01	49.00	48.14	(0.86)	5.80	-	101.8
6/30/02	49.20	50.63	1.43	6.44	22.2	97.2
6/30/03	48.92	51.67	2.75	6.31	43.5	94.7

City of Madison Heights, Michigan

Required Supplemental Information Schedule of Employer's Contributions June 30, 2004

The schedule of employer contributions is as follows:

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for Police and Fire*	Percentage Contributed
06/30/99	06/30/98	\$ 988,091	100.0
06/30/00	06/30/99	909,016	100.0
06/30/01	06/30/00	850,458	100.0
06/30/02	06/30/01	845,881	100.0
06/30/03	06/30/02	951,923	100.0
06/30/04	06/30/03	1,221,459	100.0

* Excludes contributions made for retiree health care and other expenses

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date, follows:

Police and Fire Retirement System

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	12 years closed
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7%
Projected salary increases**	5.5% - 8.5%

**Includes inflation at cost of living adjustments 5.5%
None

City of Madison Heights, Michigan

Note to Required Supplemental Information June 30, 2004

Note - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures by general government, public safety, community services, culture and recreation, and community development, which is in accordance with the State's legal requirements. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. The level of detail presented in the required supplemental information and other supplemental information budgetary comparison schedules for the major and nonmajor governmental funds is on this budget basis. Copies of the budget for all budgeted funds are available at the office of the city clerk.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of an ordinance.
4. The city manager is authorized to transfer budgeted amounts between line items within an activity category; however, any revisions that alter the total expenditures of any budgeted activity must be approved by the City Council.

City of Madison Heights, Michigan

Note to Required Supplemental Information June 30, 2004

Note - Stewardship, Compliance, and Accountability (Continued)

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2004 has not been calculated.

The budget has been prepared in accordance with generally accepted accounting principles with the exception that the extraordinary item (insurance proceeds), and operating transfers have been included in the "revenues" and "expenditures" categories rather than as "extraordinary item" and "other financing sources (uses)."

Excess of Expenditures Over Appropriations in Budgeted Funds - The City budget has been adopted on a summary basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

During the current year, the City incurred general government expenditures that were in excess of the amounts budgeted as follows:

	<u>Final Budget</u>	<u>Actual</u>
General Fund - Public safety	\$ 13,281,174	\$ 13,335,196
Revolving Fund	223,000	242,039

The variance in the General Fund - Public safety budget was due to greater than anticipated overtime and pension costs.

The variance in the Revolving Fund budget was due to greater than anticipated contractual services.

All other budget comparison schedules are contained in the other supplemental information section.

Other Supplemental Information

City of Madison Heights, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Nonmajor Special Revenue Funds			Nonmajor Debt Service Fund	
	Curtail Auto Theft	Community Improvement	Forfeiture	Fire Station	Total Nonmajor Governmental Funds
Assets					
Cash and investments	\$ 3,845	\$ -	\$ 61,849	\$ 114,896	\$ 180,590
Due from other governmental units	197	18,214	-	-	18,411
Total assets	<u>\$ 4,042</u>	<u>\$ 18,214</u>	<u>\$ 61,849</u>	<u>\$ 114,896</u>	<u>\$ 199,001</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 14,644	\$ -	\$ -	\$ 14,644
Accrued and other liabilities	4,042	3,570	-	-	7,612
Total liabilities	4,042	18,214	-	-	22,256
Fund Balances					
Reserved	-	-	-	114,896	114,896
Unreserved - Undesignated	-	-	61,849	-	61,849
Total fund balances	-	-	61,849	114,896	176,745
Total liabilities and fund balances	<u>\$ 4,042</u>	<u>\$ 18,214</u>	<u>\$ 61,849</u>	<u>\$ 114,896</u>	<u>\$ 199,001</u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2004

	Nonmajor Special Revenue Funds			Nonmajor Debt Service Fund	
	Curtail Auto Theft	Community Improvement	Forfeiture	Fire Station	Total Nonmajor Governmental Funds
Revenues					
Intergovernmental	\$ 58,569	\$ -	\$ -	\$ -	\$ 58,569
Federal sources	-	112,865	-	-	112,865
Other	-	-	69,178	35	69,213
Total revenues	58,569	112,865	69,178	35	240,647
Expenditures					
Current:					
Public safety	87,255	-	-	-	87,255
Community development and improvement	-	112,865	-	-	112,865
Capital outlay	-	-	48,935	-	48,935
Debt administration	-	-	-	325,486	325,486
Total expenditures	87,255	112,865	48,935	325,486	574,541
Excess of Revenues Over (Under) Expenditures	(28,686)	-	20,243	(325,451)	(333,894)
Other Financing Sources - Operating transfers in	28,686	-	-	440,347	469,033
Net Change in Fund Balances	-	-	20,243	114,896	135,139
Fund Balances - July 1, 2003	-	-	41,606	-	41,606
Fund Balances - June 30, 2004	\$ -	\$ -	\$ 61,849	\$ 114,896	\$ 176,745

City of Madison Heights, Michigan

Other Supplemental Information Combining Balance Sheet Agency Funds June 30, 2004

	Tax Collection Fund	Escrow Fund	Totals
Assets - Cash and cash equivalents	<u>\$ 27,824</u>	<u>\$ 716,846</u>	<u>\$ 744,670</u>
Liabilities			
Accounts payable	\$ -	\$ 198	\$ 198
Prepaid taxes	27,824	-	27,824
Cash bonds and deposits	<u>-</u>	<u>716,648</u>	<u>716,648</u>
Total liabilities	<u>\$ 27,824</u>	<u>\$ 716,846</u>	<u>\$ 744,670</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2004

Special Revenue - Curtail Auto Theft

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Intergovernmental	\$ 67,627	\$ 58,569	\$ (9,058)
Expenditures	90,171	87,255	(2,916)
Excess of Expenditures Over Revenues	(22,544)	(28,686)	(6,142)
Other Financing Sources - Operating transfers in	22,544	28,686	6,142
Fund Balance - July 1, 2003	-	-	-
Fund Balance - June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue - Community Improvement

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Federal sources	\$ 191,171	\$ 112,865	\$ (78,306)
Expenditures	142,788	112,865	(29,923)
Excess of Revenues Over Expenditures	48,383	-	(48,383)
Other Financing Uses - Operating transfers out	(48,383)	-	48,383
Fund Balance - July 1, 2003	-	-	-
Fund Balance - June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2004

Special Revenue - Forfeiture

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Other	\$ 40,350	\$ 69,178	\$ 28,828
Expenditures	<u>42,000</u>	<u>48,935</u>	<u>6,935</u>
Excess of Revenues Over (Under) Expenditures	(1,650)	20,243	21,893
Fund Balance - July 1, 2003	<u>41,606</u>	<u>41,606</u>	-
Fund Balance - June 30, 2004	<u><u>\$ 39,956</u></u>	<u><u>\$ 61,849</u></u>	<u><u>\$ 21,893</u></u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Capital Projects - Fire Station Fund Year Ended June 30, 2004

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Other	\$ -	\$ 31,433	\$ 31,433
Expenditures	<u>4,900,489</u>	<u>4,308,588</u>	<u>(591,901)</u>
Excess of Expenditures Over Revenues	(4,900,489)	(4,277,155)	623,334
Fund Balance - July 1, 2003	<u>5,135,290</u>	<u>5,135,290</u>	-
Fund Balance - June 30, 2004	<u><u>\$ 234,801</u></u>	<u><u>\$ 858,135</u></u>	<u><u>\$ 623,334</u></u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Fire Station Debt Service Fund Year Ended June 30, 2004

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Other	\$ -	\$ 35	\$ 35
Expenditures	<u>436,438</u>	<u>325,486</u>	<u>(110,952)</u>
Excess of Expenditures Over Revenues	(436,438)	(325,451)	110,987
Other Financing Sources - Operating transfers in	436,438	440,347	3,909
Fund Balance - July 1, 2003	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2004	<u>\$ -</u>	<u>\$ 114,896</u>	<u>\$ 114,896</u>

City of Madison Heights, Michigan

Other Supplemental Information Schedule of Changes in Reserves Police and Fire Retirement System Year Ended June 30, 2004

	Employees' Contributions	Employer's Contributions	Retirees' Pension Benefit Payments
Additions			
Investment income:			
Interest and dividends	\$ -	\$ 1,434,405	\$ -
Appreciation of investment value	-	2,100,192	-
Net investment income	-	3,534,597	-
Employee contributions	554,531	-	-
City contributions:			
Pension benefits	-	1,221,459	-
Postretirement benefits	-	902,815	-
Investment and administrative expenses	-	472,053	-
Total contributions	554,531	2,596,327	-
Total additions	554,531	6,130,924	-
Deductions			
Pension payments	-	-	(2,870,019)
Postretirement benefits	-	(902,815)	-
Trustee fees and other investment-related expenses	-	(257,320)	-
General administrative expenses	-	(214,733)	-
Total deductions	-	(1,374,868)	(2,870,019)
Transfers			
Investment income allocation	294,391	(2,333,081)	2,038,690
Transfer for retirees	(108,758)	(563,707)	672,465
Withdrawals	(109,471)	-	-
Net Increase (Decrease)	630,693	1,859,268	(158,864)
Net Assets Held in Trust for Pension Benefits			
Beginning of year	4,862,862	8,730,975	31,321,693
End of year	<u>\$ 5,493,555</u>	<u>\$ 10,590,243</u>	<u>\$ 31,162,829</u>

Statistical Section

City of Madison Heights, Michigan

General Government Expenditure History (I) Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

Fiscal Year			Community and				
Ended	General		Economic	Recreation	Capital	Debt	Total
June 30	Government	Public Safety	Development	and Culture	Outlay	Administration	Expenditures
1995	\$ 3,680	\$ 8,999	\$ 5,130	\$ 1,375	\$ 1,212	\$ 852	\$ 21,248
1996	3,690	9,330	4,362	1,322	2,432	834	21,970
1997	3,592	9,590	4,767	1,458	2,168	831	22,406
1998	4,060	9,582	4,557	1,532	4,568	865	25,164
1999	4,382	10,231	4,851	1,589	3,112	724	24,889
2000	5,378	11,195	4,437	2,478	3,629	747	27,864
2001	5,493	11,237	5,343	2,516	3,220	210	28,019
2002	5,608	12,110	5,912	2,656	2,393	46	28,725
2003	5,416	12,520	5,254	2,314	3,533	11	29,048
2004	5,512	13,422	7,227	2,427	6,616	325	35,529

(I) Includes all governmental fund types under modified accrual accounting

Source: City's annual financial statements

City of Madison Heights, Michigan

General Government Revenues History (1) Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

Fiscal Year Ended June 30	General Property Taxes	Licenses and Permits	Inter- governmental Revenue	Charges for Services	Court Fines and Fees	Interest and Miscellaneous Revenues	Total Revenues
1995	\$ 11,856	\$ 532	\$ 5,772	\$ 713	\$ 1,189	\$ 1,533	\$ 21,595
1996	12,203	521	6,101	706	1,190	1,802	22,523
1997	12,658	661	6,514	814	1,159	2,082	23,888
1998	14,740	707	6,257	940	1,010	1,765	25,419
1999	15,457	732	6,395	899	1,173	2,253	26,909
2000	15,943	730	6,601	1,192	1,509	2,727	28,702
2001	16,239	515	6,351	1,152	1,473	3,301	29,031
2002	16,755	899	6,266	1,319	1,443	2,556	29,238
2003	17,291	693	5,766	1,415	1,282	2,132	28,579
2004	18,636	711	5,688	959	1,444	2,582	30,020

(1) Includes all governmental fund types

Source: City's annual financial statements

City of Madison Heights, Michigan

General Government Selected Intergovernmental Revenues by Source (1) Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Grants	Income Tax	Sales Tax	Single Business Tax (SBT)	SBT Inventory Property Tax Replacement	Gas and Weight Tax	Total
1995	\$ 214	\$ 661	\$ 1,661	\$ 510	\$ 593	\$ 1,293	\$ 4,932
1996	224	640	1,745	564	595	1,324	5,092
1997(2)	120	50	3,044	-	614	1,308	5,136
1998	108	-	3,234	-	614	1,631	5,587
1999	164	-	3,444	-	614	1,661	5,883
2000	178	-	4,046	-	-	1,744	5,968
2001	293	-	4,173	-	-	1,735	6,201
2002	356	-	4,042	-	-	1,714	6,112
2003	308	-	3,551	-	-	1,872	5,731
2004	131	-	3,281	-	-	1,803	5,215

- (1) Includes revenues from certain State sources that were recorded in the City's various governmental fund-type funds
- (2) During fiscal year 1997, the State changed its method of allocation revenue-sharing distributions.

Source: The City's finance department records

City of Madison Heights, Michigan

Tax Levy History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	City (1)	School	County	Total
1995	\$ 11,506	\$ 16,769	\$ 6,082	\$ 34,357
1996	11,714	17,428	6,994	36,136
1997	12,113	18,585	7,154	37,852
1998	14,585	19,543	7,344	41,472
1999	14,674	21,419	7,439	43,532
2000	16,984	22,793	8,110	47,887
2001	17,237	23,455	8,056	48,748
2002 (2)	17,016	25,147	10,026	52,189
2003	17,480	26,354	10,772	54,606
2004	18,636	25,878	10,857	55,371

(1) In addition to the tax levy, the City includes in property tax revenue the captured TIFA and DDA taxes as well as collection fees, penalties, and related items.

(2) TIFA capture was discontinued.

Source: City's finance department records

City of Madison Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Levy	Current Collections in Fiscal Year	Percent Collected in Fiscal Year	Delinquent Collections in Fiscal Year	Total Current and Delinquent Collections to 6/30/03	Percent Collected to 6/30/03	Delinquent Taxes Receivable at Fiscal Year End (1)
1995	\$ 11,506	\$ 11,448	99.50	\$ 55	\$ 11,503	99.97	\$ 179
1996	11,714	11,664	99.57	61	11,725	100.09	170
1997	12,113	11,991	98.99	58	12,049	99.47	153
1998	14,178	13,973	98.55	60	14,033	98.98	144
1999	16,405	16,284	99.26	95	16,379	99.84	155
2000	16,984	16,921	99.63	63	16,984	100.00	176
2001	17,237	16,972	98.46	102	17,074	99.05	295
2002	17,016	16,671	97.97	119	16,790	98.67	455
2003	17,480	17,167	98.21	195	17,362	99.32	249
2004	18,837	18,560	98.52	199	18,759	99.59	277

(1) On the governmental funds balance sheet, the City reserved the entire balance of delinquent taxes receivable outstanding at year end.

Source: City's finance department records

City of Madison Heights, Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years (Unaudited)

Fiscal Year Ended June 30	City	Schools (1)		County	Total	
		Homestead	Nonhomestead		Homestead	Nonhomestead
1995	\$ 15.02	\$ 8.76	\$ 22.76	\$ 7.93	\$ 31.71	\$ 45.71
1996	15.17	10.25	20.15	9.06	34.48	44.38
1997	15.17	11.13	21.82	8.97	35.27	45.96
1998	17.14	10.48	21.41	8.60	36.22	47.15
1999	17.04	16.67	27.77	8.53	42.24	53.34
2000	16.79	17.38	28.51	8.92	43.09	54.22
2001	16.63	17.20	28.87	8.66	42.49	54.16
2002	16.22	17.21	28.58	10.01	43.44	54.81
2003	15.89	16.98	28.50	10.28	43.15	54.67
2004	16.71	15.80	27.44	10.24	42.75	54.39

Note - All rates are expressed in dollars per \$1,000 of taxable value.

(1) Amounts represent a simple average of the three school districts within the City: Lamphere, Madison, and Royal Oak.

Source: City's finance department's records

City of Madison Heights, Michigan

General Tax Information (Unaudited)

	City, Including DDA, and First Half School Taxes	County and Second Half School Taxes
Date billed	7/1	12/1
Payment period	City 7/1 to 6/30 Schools 7/1 to 12/31	County 1/1 to 12/31 Schools 1/1 to 6/30

All Taxes - City, County, and School

Delinquent real property taxes are returned to the City Treasurer for collection on March 1. Tax sales are conducted by the County after taxes are delinquent for three years. Property is deeded to the State after five* years' delinquency. Land sale by State after five* years.

* Two years beginning in fiscal year ending June 30, 2005

City of Madison Heights, Michigan

Taxable Valuation History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Real Property Taxable Valuation	Personal Property Taxable Valuation	Total Taxable Valuation
1995	\$ 622,448	\$ 143,602	\$ 766,050
1996	622,185	149,971	772,156
1997	636,133	162,344	798,477
1998	668,505	169,324	837,829
1999	686,323	184,253	870,576
2000	721,018	188,567	909,585
2001	773,733	175,823	949,556
2002	820,884	182,498	1,003,382
2003	869,225	180,758	1,049,983
2004	908,666	169,544	1,078,210

Note The schedule represents final assessed taxable value after Board of Review and Michigan Tax Tribunal adjustments. Amounts exclude captured TIFA and DDA valuation increments, where applicable.

Source: City Assessor's department records

City of Madison Heights, Michigan

Principal Taxpayers

June 30, 2004

(Unaudited)

(amounts expressed in thousands)

	Real Property Taxable Valuation	Personal Property Taxable Valuation	Total Taxable Valuation	Percentage of Current City Total Taxable Valuation
Gordon Begin Co. (GOBE)	\$ 18,646	\$ -	\$ 18,646	1.73
Liberty Property Trust	17,633	8	17,641	1.64
S & M Heights/Madison Place	14,334	-	14,334	1.33
Detroit Edison Co.	-	12,729	12,729	1.18
Madison Place, LLC	12,020	-	12,020	1.11
Meijer, Inc.	7,584	2,519	10,103	0.94
BT-OH, LLC (UPS)	8,913	-	8,913	0.83
12-75 LTD Partnership/Saturn	4,678	3,400	8,078	0.75
First Industrial LP	8,054	-	8,054	0.75
Sam's Real Estate	7,385	604	7,989	0.74
Madison Heights/New Horizon Co-op Apartments	7,841	-	7,841	0.73
Great Lakes Property Group Trust	7,725	38	7,763	0.72
Ramco-Gershenson/Kmart	6,511	1,012	7,523	0.70
Target Corporation/Mervyn's	6,116	1,054	7,170	0.66
Ogura	2,248	4,200	6,448	0.60
Commercial Steel Treating	2,033	4,245	6,278	0.58
Costco	4,905	911	5,816	0.54
Kemp & Sherman	5,755	-	5,755	0.53
Home Depot	4,384	757	5,141	0.48
Howard Plating	2,467	2,193	4,660	0.43
Total	<u>\$ 149,232</u>	<u>\$ 33,670</u>	<u>\$ 182,902</u>	<u>16.97</u>

Note - The schedule represents the final assessed taxable values after Board of Review and Michigan Tax Tribunal adjustments (valuations as of December 31, 2002).

Source: City Assessor's department records

City of Madison Heights, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

<u>Fiscal Year Ended June 30</u>	<u>Current Special Assessment Installment Due</u>	<u>Current Special Assessment Collection (1)</u>	<u>Ratio of Collections to Amount Due</u>	<u>Total Outstanding Special Assessments</u>
1995	\$ 221	\$ 221	100	\$ 723
1996	249	249	100	618
1997	204	204	100	682
1998	342	342	100	727
1999	395	395	100	622
2000	366	366	100	916
2001	305	305	100	948
2002	271	271	100	789
2003	299	299	100	649
2004	440	440	100	1,628

(1) Current special assessment collections represent collections of installments currently due without regard to early payoffs.

Source: City's finance department records

City of Madison Heights, Michigan

Net Bonded Debt History Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30	Federal Census Population	Taxable Valuation (2)	General Obligation Bonds Outstanding (1)	Percent of Debt to Taxable Valuation	Debt per Capita (3)
1995	32	\$ 766,050	\$ 2,432	.32	\$ 76.00
1996	32	772,156	2,040	.26	63.75
1997	32	798,477	1,620	.20	50.63
1998	32	837,829	1,150	.14	35.94
1999	32	870,576	675	.08	21.09
2000	32	909,585	150	.02	4.68
2001	31	949,556	-	-	-
2002	31	1,003,382	-	-	-
2003	31	1,049,983	5,925	.56	191.13
2004	31	1,078,210	5,770	.54	186.13

(1) Amount does not include Revenue Bonds, contractual drain obligations, or water and sewer general obligations.

(2) From taxable valuation history schedule

(3) Amounts expressed in dollars

City of Madison Heights, Michigan

Computation of Legal Debt Margin June 30, 2004 (Unaudited) (amounts expressed in thousands)

2004 total taxable value	<u>\$ 1,078,210</u> (1)
Legal debt limit (2) (10 percent of total assessed valuation) (3)	\$ 107,821
Amount of bonded debt applicable to debt limit	<u>5,770</u> (4)
Legal debt margin	<u>\$ 102,051</u>

(1) Amount excludes captured DDA valuation increments.

(2) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(3) Act No. 202, P.A. 1943 as amended by Act No. 42, P.A. 1960 (defining assessed valuation)

(4) Amount does not include revenue bonds or water and sewer general obligations.

City of Madison Heights, Michigan

Computation of Direct and Overlapping Debt June 30, 2004 (Unaudited)

(amounts expressed in thousands)

Jurisdiction	Net General Obligation Debt Outstanding	Percent Applicable to City	City Share of Net Debt
Direct Debt - City of Madison Heights	\$ 5,770,000	100.00	\$ 5,770,000 (1)
Overlapping Debt			
Madison School District	17,540,000	100.00	17,540,000
Lamphere School District	28,480,000	86.38	24,601,024
Royal Oak School District	33,028,000	0.45	148,626
Oakland Community College	12,325,000	2.05	252,663
Oakland County at large	73,460,291	2.03	1,491,244
Oakland Intermediate School District	11,200,000	2.04	228,480
Total overlapping debt			<u>44,262,037</u>
Total direct and overlapping debt			<u>\$ 50,032,037</u>

(1) Amount does not include revenue bonds or water and sewer general obligations.

Source: Various taxing authorities

City of Madison Heights, Michigan

Ratio of Annual Debt Service Expenditures for General Bonded Debt (1) to Total General Government Expenditures (2) Ten-year Summary (Unaudited) (amounts expressed in thousands)

Fiscal Year Ended June 30					Total General Government Expenditures	Debt Service as a Percentage of General Government Expenditures
	Principal	Interest	Total Debt Service			
1995	\$ 369	\$ 149	\$ 518	\$ 21,248		2.4
1996	392	128	520	21,970		2.4
1997	420	104	524	22,406		2.3
1998	470	79	549	25,164		2.2
1999	475	53	528	24,889		2.1
2000	525	27	552	27,864		1.9
2001	150	9	159	28,019		0.6
2002	-	-	-	28,725		-
2003	-	-	-	29,048		-
2004	155	170	325	35,529		0.9

(1) Includes general obligation bonds (exclusive of water and sewer general obligations), municipal building authority bonds, and motor vehicle highway bonds

(2) Includes all governmental fund types

Source: City's annual financial statements

City of Madison Heights, Michigan

Demographic Statistics Ten-year Summary (Unaudited)

Fiscal Year Ended June 30	Federal Census Population	Per Capita Income (1)	Median Age (1)	Education Level in		Unemployment Rate (Percent) (3)
				Years of Formal Schooling (1)	School Enrollment (2)	
1995	32,196	\$14,192	32.6	12.0	2,260	5.2
1996	32,196	14,192	32.6	12.0	2,283	3.9
1997	32,196	14,192	32.6	12.0	2,250	3.5
1998	32,196	14,192	33.0	12.0	2,250	3.5
1999	32,196	14,192	33.0	12.0	2,250	2.7
2000	32,196	14,192	33.0	12.0	5,382	2.9
2001	31,101	21,429	36.1	12.0	5,354	4.5
2002	31,101	21,429	36.1	12.0	5,117	6.0
2003	31,101	21,429	36.1	12.0	5,106	6.5
2004	31,101	21,429	36.1	12.0	5,045	6.5

Sources:

(1) Federal register

(2) Through 1999 includes only Madison School District - "Fourth Friday Count" (does not include Adult Education Enrollment). Years subsequent to 1999 include Madison and Lamphere School Districts as well as Bishop Foley and St. Vincent Schools.

(3) Michigan Employment Security Commission

City of Madison Heights, Michigan

Fiscal Year Ended June 30	Construction Value (1)	Number of Permits		Bank Deposits (2)
		New Construction (1)	Demolition (1)	
1995	\$ 16,533,935	1,409	11	\$ 63,215,000
1996	13,047,273	1,278	6	48,911,000
1997	21,265,191	1,477	8	50,000,000
1998	23,049,836	1,204	19	49,500,000
1999	35,000,000	1,050	21	50,000,000
2000	27,529,563	645	12	51,000,000
2001	11,909,199	997	25	52,500,000
2002	31,380,365	993	2	53,000,000
2003	27,761,593	833	15	53,500,000
2004	17,908,035	854	8	54,000,000

Sources:

- (1) City Community Development Director. New construction permits for residential, commercial, and apartment projects issued during the fiscal year. Construction value based on these as well as all other permits issued.
- (2) First of America Bank, Madison Heights, Michigan branch
- (3) City Assessor - Amounts represent original assessed taxable value before Board of Review and Michigan Tax Tribunal adjustments.

**Real Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years
(Unaudited)**

Assessed Real Property Value (3)

Commercial	Industrial	Residential
\$ 164,362,530	\$ 165,832,070	\$ 322,644,440
170,909,640	169,249,300	341,686,780
175,495,330	171,098,160	366,829,650
201,205,900	190,124,730	410,860,570
218,399,560	224,776,910	451,712,500
230,421,950	241,005,700	493,028,520
246,378,110	254,755,720	534,479,040
274,073,560	263,456,110	573,426,250
286,534,630	269,127,700	611,904,340
287,721,970	274,022,180	641,568,050

City of Madison Heights, Michigan

Miscellaneous Statistical Data (Unaudited)

The City of Madison Heights was incorporated January 17, 1955 under Home Rule Act 279 P.A. 1909, as amended, and is administered by a city manager, mayor, and council. It is located in Southeast Oakland County and is approximately seven (7) square miles in area.

The estimated 31,000 residents of the City of Madison Heights are provided various services by the 212 persons employed by the City.

Statistical data related to City services at June 30, 2004 is as follows:

Street service:

Paved streets	106.00 miles
Sidewalks	199.50 miles
Street lighting	1,830 units

Water and sewer service:

Water mains	131 miles
Consumers:	
Residential	9,619
Commercial	1,315
Sanitary sewers	111 miles
Storm sewers	52 miles

Protective services - Fire protection:

Stations	2
Employees	38
Hydrants	1,115

Police protection:

Employees	73
Crossing guards	15
Patrol vehicles	12
Number of traffic violations issued	8,847
Police reserve members	33

Culture, education, and recreation:

Libraries	2
Schools by type:	
Elementary	8
Middle	2
Senior	3
Parks	14
Area of parks	131.43 acres

City of Madison Heights, Michigan

Federal Awards Supplemental Information June 30, 2004

City of Madison Heights, Michigan

Contents

Independent Auditor's Report	I
Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements	2-3
Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards	4-5
Schedule of Expenditures of Federal Awards	6
Note to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-9



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the basic financial statements of the City of Madison Heights, Michigan for the year ended June 30, 2004 and have issued our report thereon dated September 10, 2004. Those basic financial statements are the responsibility of the management of the City of Madison Heights, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Madison Heights, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 10, 2004

A member of



A worldwide association of independent accounting firms



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the basic financial statements of the City of Madison Heights, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Madison Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Madison Heights, Michigan in a separate letter dated September 10, 2004.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 10, 2004



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Compliance

We have audited the compliance of the City of Madison Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of the City of Madison Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Madison Heights, Michigan's management. Our responsibility is to express an opinion on the City of Madison Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Madison Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Madison Heights, Michigan's compliance with those requirements.

In our opinion, the City of Madison Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Internal Control Over Compliance

The management of the City of Madison Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Madison Heights, Michigan in a separate letter dated September 10, 2004.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 10, 2004

City of Madison Heights, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development: Section 8 Voucher	14.871	N/A	\$ 1,854,351	\$ 1,758,245
Community Development Block Grant - Passed through Oakland County, Michigan:	14.218	Unit 21		
2003			192,883	35,840
2004			192,883	77,025
Total Community Development Block Grant				112,865
Total U.S. Department of Housing and Urban Development				1,871,110
U.S. Department of Justice - Office of Justice Programs - Bureau of Justice Assistance - Local Law Enforcement Block Grants Program:				
(2001-LB-BX-1875)	16.592	N/A	27,933	139
(2002-LB-BX-1896)			22,785	5,728
(2003-LB-BX-0928)			17,557	3,774
Total U.S. Department of Justice				9,641
U.S. Federal Emergency Management Award Agency - Passed through the State of Michigan - Public Assistance Grant Program	97.036	N/A	13,362	10,422
Total federal awards				<u>\$ 1,891,173</u>

City of Madison Heights, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Madison Heights, Michigan and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. However, certain revenue related grant expenditures were not direct federal awards and, as such, were reported as other than federal source revenues in the City's basic financial statements.

A reconciliation of the City's basic financial statements federal source revenue presentation with the schedule of expenditures of federal awards is as follows:

Federal revenue reported in the Housing Commission as operating grants and contributions	\$ 1,748,244
Federal revenue reported in the Housing Commission as miscellaneous general revenue	10,001
Federal revenue reported in the General Fund as operating grants and contributions	20,063
Federal revenue reported in the Community Improvement Fund as operating grants and contributions	<u>112,865</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 1,891,173</u>

City of Madison Heights, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

Name of Federal Program	Amount
-------------------------	--------

Section 8 Voucher

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

City of Madison Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

September 10, 2004

Honorable Mayor and Members
of the City Council
City of Madison Heights
300 West Thirteen Mile Road
Madison Heights, Michigan 48071

Dear Major and Council Members:

We recently completed the audit of the financial statements of the City of Madison Heights, Michigan for the year ended June 30, 2004. In addition to the audit report, we offer the following comments and suggestions for your consideration.

STATE REVENUE SHARING

State shared revenue accounts for approximately 13 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties their historical statutory revenue sharing payments (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

STATE REVENUE SHARING (continued)

The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$2,090,415	\$2,182,477	\$4,272,892	\$ -
2001	2,146,439	2,018,212	4,164,651	108,241
2002	1,810,148	2,038,771	3,848,919	423,973
2003	1,539,613	2,073,287	3,612,900	659,992
2004	1,196,338	2,050,766	3,247,104	1,025,788

POTENTIAL GENERAL FUND REVENUE SOURCES

The City continues to be faced with budgetary challenges. Many challenges, including potential future reductions in revenue sharing payments, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as the City's limited ability to generate growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations, are characteristics of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate. It is important that the City maintains an adequate level of working capital and fund balance to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations. As a result, we have provided the following revenue source suggestions.

Major and Local Streets

- In accordance with Act 51, 10 percent of State funds received by the Major and Local Street Funds are allowed to be allocated to administrative fees. Currently, the City is only charging the Major and Local Street Funds about 20 percent of the potential allowed under the statute. We encourage the City to review departmental activities related to the administration of these funds for potential reimbursable costs.

Dedicated Millages

- Currently, various activities for which dedicated millages are available are in the situation where cumulative related expenditures exceed the related revenue. For a couple of these levies, the potential exists to increase future tax levies to offset the situation. We understand that the City has considered these circumstances during its last budget process.

POTENTIAL GENERAL FUND REVENUE SOURCES (continued)

- The potential exists for the City to implement other special levies to ease the burden placed on the General Fund by the related specific services. In particular under Act 164 a levy of up to 1 mill could be instituted to help cover related library expenses.

Property Taxes

- Currently the City does not prorate delinquent personal property taxes to the various special tax levies. Rather, all delinquents are offset against the general operating millage. Prospectively, the City may want to consider allocating the appropriate share of delinquent personal property taxes against all the millages to avoid the general operating mills from absorbing all of the potential shortfalls.

User Fees

- Given the reduction in state shared revenue and other revenue sources, an area that several communities have addressed in an effort to offset at least some portion of other lost revenues is user fees. An analysis of the current level of user fees charged by the City in comparison to other communities, as well as related costs, may prove helpful. We understand that the City is currently implementing such an initiative.

MANUAL JOURNAL ENTRIES

During this year's audit, additional procedures were performed pursuant to a new Statement on Auditing Standards entitled *Consideration of Fraud in a Financial Statement* (referred to as SAS 99). SAS 99 focuses additional attention on the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in certain new and additional testing in the conducting of this year's audit, including a more detailed analysis of manual journal entries.

We did note a few minor matters related to journal entries which may deserve some additional attention. These matters relate to the potential to increase the segregation of duties and to formalize the review process related to the posting of manual entries. These considerations have been separately communicated to the Finance department in greater detail.

POSTEMPLOYMENT BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage premiums are paid. The new pronouncement is effective for the year ended June 30, 2008.

Honorable Mayor and Members
of the City Council
City of Madison Heights

September 10, 2004

REMOTE LOCATIONS

As part of our audit, we were requested to review the cash activity at the Nature Center. We have provided the City's administration a memorandum containing our observations and some suggestions for further procedural refinements.

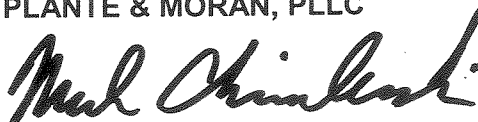
PERFORMANCE BONDS

Our review of performance bonds revealed numerous old outstanding deposits. The City should investigate the status of older bond deposits to determine whether amounts need to be refunded to the appropriate parties or otherwise resolved. In addition, the City should consider consulting with legal counsel related to the applicability of the State's escheat laws.

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Mark E. Chmielewski



Blake M. Roe